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McCarty, Richard Justin

Valuation of the properties of the Kansas City...

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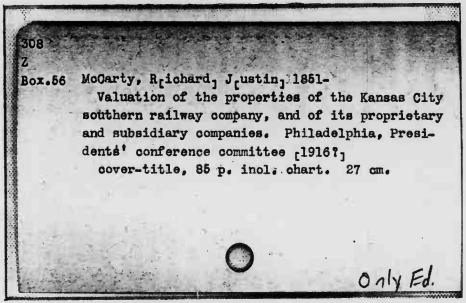

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VALUATION OF THE PROPERTIES

OF

THE KANSAS CITY SOUTHERN RAILWAY COMPANY

AND OF

ITS PROPRIETARY AND SUBSIDIARY COMPANIES

BY

R. J. McCARTY

OFFICE OF
GENERAL SECRETARY
PRESIDENTS' CONFERENCE COMMITTEE
PHILADELPHIA, PA.

VALUATION OF THE PROPERTIES OF THE KANSAS CITY SOUTHERN RAILWAY COMPANY AND OF ITS PROPRIETARY AND SUBSIDIARY COMPANIES

BY

R. J. McCARTY

It is the expressed intention of the division of valuation of the Interstate Commerce Commission to give on June 21, 1916, a hearing with respect to the federal valuation of the properties of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies.

To meet this situation the facts and conditions which so far have been developed as affecting the valuation of those properties are set forth in this preliminary report in order that they may be available for use at the hearing mentioned.

The federal valuation of the properties of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies, and as set forth in this report, is based upon complete surveys, careful measurements and systematic inspection of all the physical property, and upon the facts and conditions developed by a thorough examination of the books and records of each company, and ascertained from other available sources of information.

The data thus obtained were then reduced to concrete form on basis of an analysis of federal valuation dated January 10, 1916, hereunto attached and marked "Exhibit A."

The physical property embraced within this valuation consists of—

1. THE KANSAS CITY SOUTHERN RAILWAY SYSTEM.

   All physical property owned in fee simple or by ownership of all outstanding securities and used by that company for purposes of a common carrier as of June 30, 1914, the prescribed date of federal valuation of such property, being—

   THE KANSAS CITY SOUTHERN RAILWAY,
   TEXARKANA & FORT SMITH RAILWAY,
   THE KANSAS CITY, SHREVEPORT & GULF RAILWAY,
   THE MAYWOOD & SUGAR CREEK RAILWAY,
   THE FORT SMITH & VAN BUREN RAILWAY.

2. PROPRIETARY AND SUBSIDIARY PROPERTIES.

   Consisting of the following physical properties—

   THE KANSAS CITY, SHREVEPORT & GULF TERMINAL,
   THE ARKANSAS WESTERN RAILWAY,
   THE POTEAU VALLEY RAILROAD,
   PORT ARTHUR CANAL AND DOCK,
   THE K. C. S. ELEVATOR,
   GLENN-POOL TANK LINE.

ORIGINAL COST TO DATE.

The original cost to date as required by the Federal Valuation Act is understood to be the cost in money, or its equivalent, of the land, labor and materials involved in the physical properties owned or used for purposes of a common carrier as shown by inventory as of date of valuation classified, as nearly as practicable, in conformity with the classification of road and equipment as prescribed by the Interstate Commerce Commission.

ORIGINAL COST TO DATE.

THE KANSAS CITY SOUTHERN RAILWAY SYSTEM.

Nearly all of the property included in The Kansas City Southern Railway System was originally acquired or constructed and equipped by the predecessor companies of The Kansas City Southern Railway Company during the period from 1890 to 1898 through certain construction companies as contractors, said contractors accepting as full compensation the securities of those predecessor companies.

In compliance with their contracts, the construction companies purchased certain lines of railroad that had already been constructed by other parties and which were available as portions of the railroad to be furnished under the terms of those contracts.

These railroads consisted of—

The Kansas City, Fort Smith & Southern Railroad, known as the "Splitlog Road," extending from Joplin to Sulphur Springs, a distance of approximately 51 miles, for which the construction companies paid	$742,500.00
The Texarkana & Northern Railroad, extending from Texarkana north and across the Red River, a distance of approximately 42 miles, for which the construction companies paid	804,960.55
The Calcasieu, Vernon & Shreveport Railroad, extending from West Lake northwest approximately 16 miles, for which the construction companies paid	50,000.00

In view of the average prices per mile paid by the construction companies for these roads, it is fair to assume that said prices were based either upon the cost of construction of these lines as they existed at date of purchase, or upon the estimated cost of construction of similar lines parallel thereto.

The securities of the predecessor companies as a rule were turned over to the construction companies upon the acquisition of these constructed lines, and upon the completion by the construction companies of each 10 miles of new railroad.

The construction companies regarded the net proceeds from the sale of these securities as their contract price, and therefore did not consider brokerage fees, commissions on sales and similar expenses incidental to realizing such net proceeds as having anything more to do with the cost of the property to them than the straight discount.

In fact the result was practically the same to the construction companies as if the predecessor companies had realized the same net proceeds from the sale of their securities, and had paid over such net proceeds as the contract price. That is, in so far as the construction companies were concerned, the net proceeds realized by them from the securities represented—

Actual cost of acquisition, construction and equipment of the property.
Contractors' profit.

But, in order for the predecessor companies to have realized those net proceeds, it would have been necessary for them to have paid either directly or indirectly all expenses incidental to selling securities at the gross market prices at which they had been disposed of by the construction companies.

Therefore, in so far as the predecessor companies were concerned, the result was practically the same as if they had sold their securities at current market prices, paid from the gross proceeds the expenses incidental to the sales, and then had turned the net proceeds over to the construction companies in full payment of the contract price.

Consequently, the delivery of the securities to the construction companies was equivalent to the payment by the predecessor companies of—

All cost of financing and marketing securities.
Actual cost of acquisition, construction and equipment of the property.
Contractors' profit.

The total of these items cannot be determined from the prices at which the securities were sold even were the same available, because those prices might have been abnormal.

Consequently, the only available means of determining the three items mentioned is to ascertain from the records of the construction companies the actual cost to them of the property covered by their contract, and from this result to estimate the contractors' profit on basis of the percentage generally used in making proposals.

The construction companies provided the funds for the completion of their contracts from sales of their own stock, and paid certain expenses of financing and marketing such stock, which expenses were included in the cost of acquisition, construction and equipment of the property.

This being true, it would not seem fair to include in the cost of the property also the cost of financing and marketing the securities of the predecessor companies, which the construction companies accepted as their contract price. This particularly in view of the fact that the construction companies as such and as a rule did not market the securities received from the railroad companies, but distributed the same among their own stockholders.

For this reason the cost of promotion and preparation will be taken as the cost of promoting the various construction companies and of financing and marketing their securities as shown by the books of those companies.

For reasons stated, the contractors' profit accruing under the various contracts of the construction companies will be taken at a minimum of 15 per cent. of the total cost of those items of construction, a certain percentage upon which a contractor would naturally include in his proposal to cover his services, the use of his money and outfit and risk of loss.

Accordingly, there is included in the valuation 15 per cent. of the total cost of promotion and preparation and acquisition and construction, exclusive of equipment, expended by the construction companies—all items of equipment being excluded for the reason that such items are not usually covered by such proposals, and because there is no reason why the predecessor companies should not have been able to purchase equipment from the manufacturers at the same prices as were paid by the construction companies.

The total expenditures by the construction companies upon which contractors' profit is based are—

Road	$12,556,293.47	
General expenditures	1,248,293.68	
		$13,804,587.15

Minimum contractors' profit, 15 per cent. of $13,804,587.15, or $2,070,688.08.

The original cost to date of The Kansas City Southern Railway System is shown on attached statement marked "Exhibit B," such original cost being based upon the actual inventory of land,

labor and materials involved in the physical property owned and used for purposes of a common carrier at date of valuation, and at prices at date of installation.

"Exhibit B" represents the total original cost of the physical property embraced in the inventory of The Kansas City Southern Railway System—such cost being determined from the records of the construction companies, of The Kansas City Southern Railway Company, of its predecessor companies and of the proprietary companies involved.

In this exhibit the total original cost to date is subdivided into four columns in order to harmonize the total actual original cost to date determined on basis of inventory with the total charges to property account as shown by the books, and also to facilitate the determination of "Other Values and Elements of Value."

The items shown in the column headed "Initial Investment Cost" represent—

Actual initial expenditures for account of road and equipment made by construction companies and by the carriers.

Contractors' profit, determined as indicated.

The items in column headed "Aids, Gifts, Grants and Donations taken at Market Value at Date of Investment," represent the market value of land, labor and materials donated in consideration of benefits accruing to the donors by reason of the construction and improvement of the property.

The items in column headed "Cost of Renewals in Excess or Deficit of Initial Cost" represent the net increased cost of materials used in repairs and renewals over the cost of the original materials replaced. The total amount involved being charged to operating expenses under accounting regulations in effect at the time.

The items in column headed "Other Costs" represent the estimated net cost resulting in the improvement and development of the property not included in "Cost of Renewals in Excess or Deficit of Initial Cost" which, under the accounting regulations in effect at the time, were charged to operating expenses or taxes.

Certain items included in the column headed "Other Costs" were estimated on basis of percentages determined from the actual expenditures made by the construction companies in course of the original construction of the road, such items and the percentages used being as follows:

Engineering—Ratio of engineering to all other road expenditures, except land for transportation purposes ..... 4.566 per cent.

General officers and clerks—Ratio of expenditures for general officers and clerks to all road expenditures ..... 1.417 per cent.

Law expenses—Ratio of law expenditures to all road expenditures ..... 0.635 per cent.

Stationery and printing—Ratio of expenditures for stationery and printing to all road expenditures ..... 0.120 per cent.

Other expenditures—General—Ratio of these expenditures to all road expenditures ..... 0.368 per cent.

Upon this basis the items of engineering, general officers and clerks, law, stationery and printing and other expenditures—general—were determined by applying the percentages indicated to the corresponding amounts shown in the last column of "Exhibit B," and from the results thus obtained deducting the corresponding items shown in the first and second columns of "Exhibit B."

The items of "Land for Transportation Purposes" included in "Other Costs" represent costs for recording deeds and other incidental expenses in connection with the acquisition of land which were charged to operating expenses.

The amount of "Grading" included in "Other Costs" was determined upon the assumption that 10 per cent. of the actual cost of section labor charged to maintenance was absorbed in widening cuts and fills; the quantities corresponding to such labor being naturally included in the physical inventory of the property.

The amount of expenditures for "Track-Laying and Surfacing" included in "Other Costs" represents the difference between the actual amount of track-laying and surfacing assignable to this account from the record, and the total amount expended for track-laying and surfacing as developed by the inventory, such difference having been charged to operating expenses under accounting regulations in effect at the time.

The amount of expenditures for "Station and Office Buildings" shown in the column "Other Costs" represents certain small buildings and office furniture which were charged to operating expenses under the regulations of the Interstate Commerce Commission.

The amount of expenditures for "Assessments for Public Improvements" shown in the column "Other Costs" represents assessments that had been charged to taxes or operating expenses instead of to construction and equipment.

The remaining small items included in the column of "Other Costs" consists of various minor expenditures in connection with the improvement and development of the property charged from time to time to operating expenses, but reflected in the physical inventory upon which the total original cost to date is based.

Original Cost to Date, Proprietary and Subsidiary Companies.

The Kansas City, Shreveport & Gulf Terminal.

Under the terms of a contract for the construction of the main line it was understood that The Arkansas Construction Company would furnish depot and station facilities at Shreveport, La., to the value of $15,000.

In lieu of this, however, it was decided to construct a union depot at Shreveport, and arrangements were made with The Arkansas Construction Company for the construction of the same.

To this end The Kansas City, Shreveport & Gulf Terminal Company was organized for the purpose of taking title to the union depot property with a capital of $150,000 of stock and $150,000 of first mortgage 4 per cent. bonds dated August 1, 1897, and maturing August 1, 1927. All of these securities were given to the Arkansas Construction Company in accordance with the agreement under which that company constructed the union depot facilities. The Arkansas Construction Company then turned over to The Kansas City, Shreveport & Gulf Railway Company the total $150,000 of stock and $25,000 of the first mortgage bonds of The Kansas City, Shreveport & Gulf Terminal Company in lieu of the $15,000 depot which the construction company was obligated to furnish at Shreveport under its construction contract.

The $150,000 of capital stock of The Kansas City, Shreveport & Gulf Terminal Company was turned over to The Kansas City, Pittsburg & Gulf Railroad Company, the proprietary company of The Kansas City, Shreveport & Gulf Railway Company, and all of this stock is now the property of The Kansas City Southern Railway Company.

The $25,000 in first mortgage bonds of The Kansas City, Shreveport & Gulf Terminal Company were also turned over to The Kansas City, Pittsburg & Gulf Railroad Company, and were sold for the latter company's account for $17,500.

The original cost to date of The Kansas City, Shreveport & Gulf Terminal property is shown on attached statement marked "Exhibit C," which is based upon the actual inventory of land, labor and materials involved in the physical property owned and used at date of valuation, and at prices at date of installation.

In this exhibit the original cost to date is subdivided into four columns in order to harmonize the total actual original cost to date as shown by the inventory with the total charges to property account as shown by the books, and also to facilitate the determination of "Other Values and Elements of Value."

The items shown in column "Initial Investment Cost" represent—

Actual initial expenditures for construction made by the construction company and by The Kansas City, Shreveport & Gulf Terminal Company.

Contractors' profit determined as indicated in considering the original cost to date of The Kansas City Southern Railway System.

The items in column headed "Aids, Gifts, Grants and Donations Taken at Market Value at Date of Investment" represent the market value of land, labor and materials donated in consideration of benefits accruing to the donors by reason of the improvements.

The items in column "Cost of Renewals in Excess or Deficit of Initial Cost" represent the net increased cost of materials used in repairs and renewals over the cost of the original materials replaced. The total amount involved being charged to operating expenses under accounting regulations in effect at the time.

The item in column headed "Other Costs" represents the estimated cost of engineering involved in the improvement and development of the property which, under the accounting regulations in effect at the time, was charged to operating expenses.

This item was determined upon the same basis, and in the same manner as indicated in considering the original cost to date of The Kansas City Southern Railway System.

On account of the nature of this property, and of its relation to The Kansas City Southern Railway Company, all other items appertaining to this column are inconsequential.

The Arkansas Western Railway.

The original cost to date of The Arkansas Western Railway is shown on the attached statement marked "Exhibit D," and is based upon the inventory of the land, labor and materials involved in the physical property owned and used for purposes of a common carrier at date of valuation and at prices at date of installation.

In this exhibit the total original cost to date is subdivided into four columns in order to harmonize the total actual original cost to date as shown by the inventory with the total charges to property account as shown by the books, and also to facilitate the determination of "Other Values and Elements of Value."

The items shown in column headed "Initial Investment Cost" represent the actual initial expenditures for account of road and equipment made by The Arkansas Western Railroad Company and its successor The Arkansas Western Railway Company.

The items in column headed "Aids, Gifts, Grants and Donations Taken at Market Value at Date of Investment" represent the market value of land, labor and materials donated in consideration of benefits accruing to the donors by reason of the construction and improvement of the property.

The items in column headed "Cost of Renewals in Excess or Deficit of Initial Cost" represent the net decreased cost of materials used in repairs and renewals below the cost of the original materials replaced. This decrease is due to the fact that The Kansas City Southern Railway Company has furnished to The Arkansas Western Railway Company second-hand materials and cull ties which were serviceable for renewals and repairs on The Arkansas Western, but which were not suitable for the heavier traffic on The Kansas City Southern. The result being that the cost of such materials and ties to The Arkansas Western Railway Company were less than the original materials which they were used to replace.

The item of "Grading" shown in the column of "Other Costs" represents the estimated cost of labor involved in the improvement of the property, and which was charged to operating expenses under accounting regulations in effect at the time.

This item was determined upon the assumption that 10 per cent. of the actual cost of section labor charged to maintenance was absorbed in widening cuts and fills, the quantities corresponding to such labor being naturally included in the physical inventory of the property.

The reason why "Exhibit D" does not show any other items under the column of "Other Costs" is because the improvements and developments made in this property since its original construction have not been of special significance.

The Poteau Valley Railroad.

The original cost to date of The Poteau Valley Railroad is shown on attached statement marked "Exhibit E," such original cost being based upon the actual inventory of the land, labor and materials involved in the physical property owned and used for purposes of a common carrier at date of valuation.

In this exhibit the items of engineering, general officers and clerks, law, stationery and printing and other expenditures—general—were determined from the inventory quantities upon basis of the percentages derived from the expenditures of the construction companies and given in considering the original cost to date of The Kansas City Southern Railway System.

The organization expenses as shown in "Exhibit E" were determined by means of the ratio of the organization expenses of the construction companies which built The Kansas City Southern Railway property to the total expenditures by those companies, such percentage being 6.324.

The total capital stock was acquired by The Kansas City Southern Railway Company in September, 1912, and the present organization for operation as a separate property was effected in January, 1913.

Practically no records are available for determining the cost of original installation of land, labor and materials; of aids, gifts, grants and donations, if any; of cost of renewals in excess or deficit of initial cost, or of other costs.

Accordingly, it has been assumed that the initial investment cost is identical with the original cost to date.

Port Arthur Canal and Dock.

The original cost to date of the property of the Port Arthur Canal and Dock Company is shown on attached statement marked "Exhibit F," such original cost being based on the actual inventory of land, labor and materials involved in the physical property owned and used at date of valuation and at prices at date of installation.

In this exhibit the total original cost to date is subdivided into four columns in order to harmonize the total actual original cost to date as shown by the inventory with the total charges to property account as shown by the books, and also to facilitate the determination of "Other Values and Elements of Value."

The items shown in the column headed "Initial Investment Cost" represent the actual initial expenditures for account of construction and improvement made by the Port Arthur Channel and Dock Company, and its successor the Port Arthur Canal and Dock Company.

The item in column headed "Aids, Gifts, Grants and Donations Taken at Market Value at Date of Investment" is the amount of labor and materials accruing to the donor by reason of the improvements made in the property.

The items in column headed "Cost of Renewals in Excess or Deficit of Initial Cost" represent the net increased cost of materials used in repairs or renewals over the original materials replaced. The total amount involved being charged to operating expenses under accounting regulations in effect at the time.

The items in column headed "Other Costs" represent the estimated net costs resulting in the improvement and development of the property not included in "Cost of Renewals in Excess or Deficit of Initial Cost," and which under accounting regulations in effect at the time were charged to operating expenses.

The item of engineering shown in column of "Other Costs" is determined by means of the engineering percentages established from the records of the construction companies which built The Kansas City Southern Railway property as indicated in considering the original cost to date of that property, such percentage being 4.566.

The item of "Land for Transportation Purposes" in column of "Other Costs" consists principally of expenses of litigation in establishing and quieting titles to land, which expenses were charged to expense of operation.

The items of "General Officers and Clerks," "Law," "Stationery and Printing" and "Other Expenditures—General" shown in the column of "Other Costs" were determined from the total original cost to date as shown by the inventory by means of the ratios existing at the completion of the original property in 1899 between each of these items and the total cost of construction to that time.

The K. C. S. Elevator.

The original cost of the K. C. S. Elevator property is shown on the attached statement marked "Exhibit G," and is based upon the actual expenditures for land, labor and materials involved in the physical property owned and used at date of valuation as shown by the books of The K. C. S. Elevator Company.

The items shown in column headed "Other Costs" are miscellaneous small items which were charged on the books of The K. C. S. Elevator Company to operating expenses, but which may properly be considered as part of the cost of the property.

Glenn-Pool Tank Line.

The physical property of the Glenn-Pool Tank Line Company consists exclusively of tank-car equipment.

The original cost to date of such property is shown on attached statement marked "Exhibit H," and based upon the inventory of the equipment owned and used at date of valuation, and at prices paid for same as shown by the books of the Glenn-Pool Tank Line Company.

The items shown in column headed "Other Costs" are miscellaneous small items which were charged on the books of the Glenn-Pool Tank Line Company to operating expenses, but which may properly be considered as part of the cost of the property.

Since The Kansas City Southern Railway Company owns 75 per cent. of the total capital stock of the Glenn-Pool Tank Line Company, its interest in the Glenn-Pool Tank Line Company is represented by 75 per cent. of its total cost.

The original cost to date of the physical property owned and used by The Kansas City Southern Railway Company, and by its proprietary and subsidiary companies as of date June 30, 1914, is shown on "Exhibit I" attached hereto, which is a recapitulation of the total original cost to date as shown on Exhibits "B," "C," "D," "E," "F," "G" and "H."

COST OF REPRODUCTION NEW.

The cost of reproduction new as required by the Federal Valuation Act is understood to be the cost in money, or its equivalent, of the land, labor and materials involved in the physical properties owned or used for purposes of a common carrier at date of valuation at prices prevalent at that date with methods and conditions under which the property was created, developed and brought to its existing state, and classified as nearly as practicable in conformity with the classification of road and equipment as prescribed by the Interstate Commerce Commission.

In estimating the cost of reproduction it is assumed that the same methods and conditions would obtain as did actually obtain while the property was being created, developed and brought to its existing state, because it is the opinion of all the engineers who are familiar with the property and the means, methods and conditions of its construction, that under a suitable engineering program practically those same means and methods would be adopted for reproduction.

The cost of reproduction new of the physical property owned or used for purposes of a common carrier by The Kansas City Southern Railway Company and its proprietary and subsidiary companies as of date June 30, 1914, the date of Federal Valuation of those properties, is based upon careful field surveys and inventories made by The Kansas City Southern Railway Company during the period, November, 1913, to April, 1915, and is shown on attached statement marked "Exhibit J" for—

The Kansas City Southern Railway System,
The Kansas City, Shreveport & Gulf Terminal,
The Arkansas Western Railway,
The Poteau Valley Railroad,
Port Arthur Canal and Dock,
The K. C. S. Elevator,
Glenn-Pool Tank Line.

In estimating the cost of reproduction it is assumed that one year will be required for preliminary location, surveys, the making of maps and plans, legal expenses, and procuring the greater part of the right of way for the railroad property.

This having been done, the construction period from the beginning of actual work to the completion of the construction of unballasted track is assumed to be as follows:

For The Kansas City Southern Railway System	4 years
For The Arkansas Western Railway	1 year
For The Poteau Valley Railroad	1 year

and for the other properties—

The Kansas City, Shreveport & Gulf Terminal	1 year
Port Arthur Canal and Dock	2 years
The K. C. S. Elevator	1 year
Glenn-Pool Tank Line	1 year

The unballasted tracks having been completed, it is assumed that all ballasting that existed as of date of valuation would be finished in one year.

It is also assumed that the actual construction of all the properties other than that embraced within The Kansas City Southern Railway System will be begun at such date as to make the dates of their completion coincident with the date of the completion of The Kansas City Southern Railway System.

ACCOUNT 1.—ENGINEERING.

This item was estimated on basis of percentage determined from the actual expenditures made by the construction companies in the course of the original construction of the railroad property. This percentage was obtained by dividing the total expenditures for engineering by all other road expenditures, except land for transportation purposes, and is 4.566 per cent.

While this percentage was determined on basis of original cost of The Kansas City Southern Railway System, and might not apply to the proprietary and subsidiary properties were they reproduced independently, it is believed that the percentage in question may fairly be regarded as applicable to each property when reproduced altogether under a general construction program.

ACCOUNT 2.—LAND FOR TRANSPORTATION PURPOSES.

The cost of reproduction of "Land for Transportation Purposes" was determined on basis of land circular of October 30, 1914, of the Presidents' Conference Committee.

To this end there was employed for each county traversed by The Kansas City Southern Railway an appraiser familiar with land values and of standing and experience which would enable him to qualify as a witness with regard thereto.

These appraisers determined in accordance with the land circular of October 30, 1914, of the Presidents' Conference Committee the naked land value for general purposes at the date of acquisition and also at the date of valuation.

The damages paid and the expense of acquisition of each tract of land was determined from the books and records of the company.

It is recognized that the proper method of estimating the cost of reproduction of "Land for Transportation Purposes" is entirely problematical. It is also recognized that the method which might be acceptable for terminal lands might not apply to country right of way. But in order to meet the present situation, it seems necessary to present tentative figures for use as a basis for discussion. Therefore, without recognizing any particular method or theory, the cost of reproduction for each tract of land has been estimated as follows:

The naked land value at the date of acquisition plus the damages, was divided by the naked land value at date of acquisition, the quotient was multiplied by the market price of the naked land for general purposes at date of valuation, and to the product was added the cost of acquisition.

The expense of acquisition for reproduction being taken to be the original expense of acquisition, which is certainly the minimum figure for cost of reproduction.

This process may be expressed as follows:

Let A = Naked land value for general purposes at date of acquisition.
Let D = Damages paid.
Let E = Expense of acquisition.
Let V = Market value of the naked land for general purposes at date of valuation.
Let C = Cost of reproduction of the tract.

Then $C = \left(\frac{A+D}{A}\right) V + E.$

This is in accordance with the general theory of determining the cost of reproduction of land advanced by Committee of Counsel of the Presidents' Conference Committee, except that in the case of The Kansas City Southern Railway properties the formula is applied to each tract of land regardless of the date of its acquisition instead of establishing the ratio on basis of recent acquisitions and applying that ratio to all the lands.

Inasmuch as all recent acquisitions were acquired for changes of line and for terminals under conditions which would not apply to the construction of the property as a whole, and inasmuch as all the lands under consideration were acquired at comparatively recent dates, a fairer application of the formula would seem to involve all the lands of The Kansas City Southern interests.

Determined in the manner indicated it will be observed that the total cost of reproduction of all the lands of The Kansas City Southern Railway Company, and of its proprietary and subsidiary companies is shown by "Exhibit J."

This amount consists of—

Total market value for general purposes of all the lands owned or used for purposes of a common carrier as of date of valuation.
Severance and other damages determined as indicated.
Expense of acquisition—
Assumed as a minimum at the original expense of acquisition.

In this connection it is proper to state that while certain lands are not actually used at present for transportation purposes, notably lands of the Port Arthur Canal and Dock Company, these lands are regarded as being held for future development, and may, therefore, properly be regarded as transportation land not used for that purpose at present.

In view of the large area of land held by the Port Arthur Canal and Dock Company, the question will no doubt arise as to whether the same is being held for purposes of a common carrier.

This question was the subject of litigation in the case of W. H. Lawson *et al. vs.* Port Arthur Canal and Dock Company *et al.*, in which it was decided by the Court of Civil Appeals of Texas, on appeal from the District Court of Jefferson County, that the lands of the Port Arthur Canal and Dock Company on either side of the ship canal which had not been deeded to the United States Government were being held by the Port Arthur Canal and Dock Company for its corporate purposes—that is, for the construction of canals, slips, docks, wharves and other purposes of that company.

Now the property of the Port Arthur Canal and Dock Company is in effect the terminal property of The Kansas City Southern Railway System, and is used principally in connection with the common-carrier purposes of that system. It would seem, therefore, that the property in question may fairly be regarded as being held in effect, though indirectly, for common-carrier purposes. Accordingly, all the lands of the Port Arthur Canal and Dock Company are included in the valuation shown on "Exhibit J" as lands held for purposes of a common carrier.

It will no doubt be objected that there is no occasion for holding such large bodies of land for the purposes indicated, but it would seem that common carriers as a rule have in the past failed to provide sufficient land for future development. This is evidenced by the experience of the Kansas City Terminal Railway here at Kansas City, and the same condition no doubt can be shown to exist in many of the large cities of the United States, particularly in the East.

In addition to this, the United States Government has subjected itself to great loss and inconvenience by failure to provide sufficient land for future development.

As a result the Government is now compelled to rent offices for the Interstate Commerce Commission and for the Division of Valuation in Washington, and I understand that the Government is seriously inconvenienced in other directions at the National Capitol by failure in the past to provide sufficient grounds for future requirements.

The same is true in the case of the Federal Building at Kansas City. In 1879 the Federal Government purchased for a consideration of $8500 certain lots at the southeast corner of Ninth and Walnut Streets, having an area of 19,346.25 square feet upon which it erected a building at a cost of about $250,000.

In 1891, or about 12 years later, for want of space the Government was compelled to purchase for a consideration of $450,000, 72,576 square feet of ground at the northeast corner of Ninth Street and Grand Avenue, or about a block distant from the original site.

In effecting the change the old property at Ninth and Walnut Streets, including the building, was sold for $260,000.

Investigation shows that at the time the old site was purchased the new site could have been bought for about $37,500.

Thus it appears that the Government by not providing in 1879 for sufficient ground for expansion at Kansas City was within 12 years compelled to pay over $400,000 more for land than would have been necessary if adequate provision for expansion had been made in 1879.

Cost of reproduction of all lands is a little more than 28 per cent. of the cost of reproduction new of all the fixed physical property involved.

Account 3.—Grading.

The reproduction prices for "Grading" were based upon prices paid under various contracts covering grading during the period from 1906 to 1912, since which period no large contracts for grading have been let. The total amount of work involved in these contracts was in excess of $1,500,000.

It is the opinion of the engineers that prices for reconstruction based on these contracts represent the minimum prices which would have to be paid in case of reconstruction of the whole line.

The reproduction prices for "Grading," determined as indicated above, do not include the cost of transportation of men and materials.

The reproduction cost of transportation of men for grading was determined by ascertaining the total free transportation given to men in connection with the Porter Brothers' contract for changes of line in 1911 and 1912, and applying thereto a rate of 2.09 cents per passenger per mile, being the estimated cost of transportation for the years 1911 and 1912 as determined from the records of the company. The ratio of the result thus reached to the total cost of the work done by Porter Brothers was thus established at 1.48 per cent., and this ratio was used in determining such cost for the grading of the whole line.

The reproduction prices for transportation of outfits and supplies for grading was determined by ascertaining from the station records the total tons one mile transported in connection with the Porter Brothers' work, and applying thereto a rate of five mills per ton one mile, being the estimated cost of transportation for the years 1911 and 1912 as determined from the records of the company. The ratio of the result thus reached to the total cost of grading done by Porter Brothers was thus established at 1.94 per cent., and this ratio was used in determining such cost for the grading of the whole line.

Account 6.—Bridges, Trestles and Culverts.

The reproduction prices for "Bridges, Trestles and Culverts" were determined separately for steel bridges, wooden bridges and culverts, and vitrified, concrete and cast-iron pipe culverts.

The reproduction cost for steel bridges was based generally upon the average cost per pound of steel bridges in place erected during the period from 1905 to 1914. The average cost per pound thus determined includes the cost of metal at point of origin, cost of inspection, cost of foreign freight, cost of handling, cost of erection, including false work and painting. It also includes the cost of transportation over the company's own line based on the average cost of transporting freight for the period during which these bridges were erected, as shown by the records of the company. Such average cost being 4.45 mills per ton per mile.

The reproduction cost for wooden bridges and culverts was determined from the average cost of timber at point of origin during the five years preceding the valuation, plus freight at commercial rates from the point of origin to the material yard, plus freight for one-half the distance of the length of the valuation section at cost rates of 4.45 mills per ton per mile, plus a charge for handling at material yard of 50 cents per M. B. M., plus cost of labor for placing same determined by an examination of the actual cost of labor on a large number of wooden bridges and culverts erected during the five years preceding the date of valuation.

The reproduction costs of vitrified, concrete and cast-iron pipe culverts were determined by the processes already indicated in establishing the prices for cost of reproduction of wooden bridges and culverts.

The reproduction prices for all stone masonry for bridges was determined by adding 20 per cent. to the prices paid during the original construction on account of the increase in price of labor between that date and the date of valuation.

The reproduction prices for concrete masonry for bridges and culverts were based on the prices paid Porter Brothers for about 15,000 cubic yards of concrete masonry erected during the years 1911 and 1912.

The cost of transporting materials for concrete for bridges and culverts was determined in the manner indicated for wooden bridges and culverts.

The cost of transportation of men for bridge work was determined by ascertaining the total free transportation given to men employed by the Arkansas Bridge Company and The Kansas City Bridge Company in connection with the construction of a large number of bridges for The Kansas City Southern Railway Company during the years 1911 and 1912, and applying thereto a rate of 2.09 cents per passenger per mile, being the estimated cost of transportation for those years as determined from the records of the company. The ratio of the result thus reached to the total cost of the work done by the bridge companies mentioned was thus established at 2.04 per cent., and this ratio was used in determining the reproduction cost of the bridges of the whole line.

The reproduction prices of bridges, trestles and culverts, determined as indicated above, were used in determining the cost of reproduction of all the bridge work, with the exception of the Kaw River Bridge No. A-3-W and the Red River Bridge B-478. The cost of reproduction of these bridges owing to peculiar circumstances attending their original construction was taken at their original cost.

Account 8.—Ties.

The cost of reproduction for "Ties" was based upon the prices paid as of June 30, 1914, to tie contractors for ties used in renewals and improvements, plus cost of treatment, in case of treated ties, plus cost of inspection, plus insurance, plus three-tenths of one per cent. for loss, plus freight from point of origin to treating plant and material yard, plus cost of handling at two cents per cross-tie and 50 cents M. B. M. for switch-ties. The cost of transportation of ties from material yard to point of use being included in track-laying and surfacing.

Account 9.—Rails.

The cost of reproduction for "Rails" was based on price at point of origin as of June 30, 1914, plus freight to junction point, plus cost of transportation on company's line from junction point to material yard, plus 50 cents per ton for handling. The cost of transportation from material yard to point of use being included in track-laying and surfacing.

Account 10.—Other Track Material.

The cost of reproduction for "Other Track Material" was based on average price of such material at point of origin during five years preceding date of valuation, plus freight from point of origin to junction point, plus estimated cost of handling various items, plus freight from junction point to material yard. The cost of transportation from material yard to point of use being included in track-laying and surfacing.

ACCOUNT 11.—BALLAST.

The cost of reproduction for "Ballast" was based upon the cost per cubic yard of ballast on board cars at pit determined from prices paid during the years 1911 to 1914, inclusive, plus cost of transportation from pit to point of application, plus cost of unloading.

Since all ballast was measured in the track, the quantities so determined were increased 10 per cent. to cover loss in transit and shrinkage in place.

ACCOUNT 12.—TRACK-LAYING AND SURFACING.

The cost of reproduction for "Track-Laying and Surfacing" was based upon the cost of track-laying and surfacing per mile determined as follows:

The cost of track-laying and surfacing for unballasted track, as shown by the records of the construction companies, was analyzed into the costs of the various classes of labor employed, and the costs of tools and the rental of the machines and equipment. The prices for reproduction were then taken at those prevalent at June 30, 1914, and the cost of track-laying and surfacing for reproduction of an unballasted track was thus determined.

A study was then made of the records of The Kansas City Southern Railway Company, and the actual cost per yard of placing ballast during the years 1911 to 1914, inclusive, was determined. The cost of placing ballast thus determined was applied to the total quantities of ballast as measured in the track.

The total cost of track-laying and surfacing for reproduction was then determined by multiplying the total mileage of all tracks by the estimated cost of track-laying and surfacing per mile for unballasted track, and adding to the result the total cubic yards of ballast in place shown by inventory by the cost per yard for placing ballast

ACCOUNT 13.—RIGHT-OF-WAY FENCES.

The cost of reproduction for "Right of Way Fences" was estimated by taking the price of materials the same as for original cost, and adding 21 per cent. to the cost of labor, 21 per cent. being the rate of increase in wages of other employes and laborers from 1905 to 1914. The average date of erection of the fences was assumed as 1905. This increase of 21 per cent. in labor was derived from a comparative summary of average daily compensation of railway employes by classes, for the years June 30, 1914, to 1892, taken from "The Railway Library and Statistics," 1914, Slason Thompson.

ACCOUNT 15.—CROSSINGS AND SIGNS.

The cost of reproduction for "Crossings and Signs" was taken at original cost for the reason that most crossings and signs in use on The Kansas City Southern Railway properties had been installed since 1910. The prices prevalent as of June 30, 1914, being practically the same as prices involved in original cost.

ACCOUNT 16.—STATION AND OFFICE BUILDINGS.

The cost of reproduction for "Station and Office Buildings" was determined on basis of prices of labor and materials as of June 30, 1914. To the results thus obtained 2.7 per cent. were added for cost of transportation of men, this per cent. having been determined from free transportation issued to building contractors during the period 1911 to 1914, inclusive, taken at the rate of 2.09 cents per passenger per mile being estimated cost of transportation and the total cost of the buildings corresponding to such transportation.

The cost of transportation of materials being included in the cost of the materials.

In order to obtain an independent check upon the results thus obtained, Mr. W. C. Root, architect at Kansas City, was employed to estimate the cost of reproduction of station and office buildings, and reached results practically the same as had been arrived at by the processes indicated.

ACCOUNT 17.—ROADWAY BUILDINGS.

The cost of reproduction for "Roadway Buildings" was determined in practically the same manner as the cost of reproduction of station and office buildings.

ACCOUNT 18.—WATER STATIONS.

The cost of reproduction for "Water Stations" was taken at the original cost of such stations for the reason that practically all of such stations were constructed since the year 1910, it being estimated that the prices of labor and material involving the original cost of such stations are practically the same as those prevalent as of June 30, 1914.

ACCOUNT 19.—FUEL STATIONS.

The cost of reproduction for "Fuel Stations" was taken at the original cost for reasons just stated in considering the cost of reproduction of water stations.

ACCOUNT 20.—SHOPS AND ENGINEHOUSES.

The cost of reproduction for "Shops and Enginehouses" was taken at the original cost for reasons stated in considering water stations and fuel stations.

ACCOUNT 21.—GRAIN ELEVATORS.

The cost of reproduction for "Grain Elevators" was taken from detailed estimates made by The Barnett & Record Company of Minneapolis, Minnesota, Contracting Engineers for Grain Elevators, of the cost of reproduction of The K. C. S. Elevator and the Port Arthur Elevator.

ACCOUNT 23.—WHARVES AND DOCKS.

The cost of reproduction for "Wharves and Docks" was determined in the manner indicated in considering the cost of reproduction of station and office buildings, wooden bridges and culverts.

Dredging was estimated by multiplying the original yardage by 12½ cents per yard, the price in the latest contracts.

ACCOUNT 26.—TELEGRAPH AND TELEPHONE LINES.

The cost of reproduction for "Telegraph and Telephone Lines" was determined by adding to the original cost 20 per cent. of the labor to cover increase in labor from the time the lines were constructed to June 30, 1914.

ACCOUNT 27.—SIGNALS AND INTERLOCKERS.

The cost of reproduction for "Signals and Interlockers" was determined by taking the cost of labor to be the same as original cost, it being estimated that the prices of labor for this class of work at date of valuation were practically the same as at the date of installation.

The cost of materials used in signals and interlockers was taken at prices prevalent at date of valuation. To the amount thus determined 2.7 per cent. was added to cover cost of transporting men in connection with the work—such per cent. being determined as indicated in considering the cost of reproduction of station and office buildings.

ACCOUNT 37.—ROADWAY MACHINES.

The cost of reproduction for "Roadway Machines" was taken at original cost for the reason that practically all of these machines had been renewed since 1910. The cost of renewal being practically the same as the cost of reproduction new as of June 30, 1914.

Account 38.—Roadway Small Tools.

The cost of reproduction for "Roadway Small Tools" was taken the same as original cost for the reasons stated under "Roadway Machines."

Account 39.—Assessments for Public Improvements.

The cost of reproduction as to "Assessments for Public Improvements" was taken to be the assessments actually paid on the assumption that in case of reproduction the same assessments would be made.

Account 40.—Revenues and Operating Expenses During Construction.

In estimating the "Revenues and Operating Expenses During Construction," it was assumed that during the construction period and until the property had been thoroughly organized and advertised for operation, it would not be able to earn more than operating expenses, and that it could not reasonably be expected that any extensive operations would be conducted at a loss.

Accordingly, it is believed that the fairest assumption is that the revenues from operation during the construction period will practically equal the operating expenses.

Account 44.—Shop Machinery.

The cost of reproduction for "Shop Machinery" was taken at the original cost because most of such machinery was purchased and installed since 1907, and it is estimated that the prices as of June 30, 1914, were practically the same as the prices originally paid.

Concerning the comparatively small amount of shop machinery purchased prior to 1907, it was estimated that the price per pound had not materially changed at date of valuation.

Account 45.—Power Plant Machinery.

The cost of reproduction for "Power Plant Machinery" was taken to be the same as original cost for reasons just stated in considering cost of reproduction of Shop Machinery.

Account 51.—Steam Locomotives.

The cost of reproduction for "Steam Locomotives" was determined from prices as of June 30, 1914, quoted by manufacturers of locomotives delivered on the rails of The Kansas City Southern Railway Company, including inspection and breaking in.

Account 53.—Freight Train Cars.

The cost of reproduction for "Freight Train Cars" was determined from prices as of June 30, 1914, quoted by manufacturers of freight train cars delivered on the rails of The Kansas City Southern Railway.

Account 54.—Passenger Train Cars.

The cost of reproduction for "Passenger Train Cars" was determined in the same manner as the cost of reproduction of freight train cars.

Account 57.—Work Equipment.

The cost of reproduction for "Work Equipment" was determined on basis of prices quoted by manufacturers of similar equipment delivered on the rails of The Kansas City Southern Railway Company.

Account 71.—Organization Expenses.

For simplicity "Organization Expenses" are based on the assumption that all funds for reproduction would be raised by sale of stock at par.

If it should be objected that this would not be practicable, it may be answered that upon that assumption the investors would have certain rights and that these rights or their equivalent cannot fairly be denied in case they should raise the money legitimately in some other way.

Accordingly, organization expenses were estimated on basis of percentages determined from ratio of the organization expenses of the construction companies which built The Kansas City Southern Railway property to the total expenditures of those companies—such percentage being 6.324.

While this percentage was determined on basis of original cost of The Kansas City Southern Railway System, and might not apply to the proprietary and subsidiary properties were they reproduced independently, it is believed that the percentage in question may fairly be regarded as applicable to each property when reproduced altogether under a general construction program.

Account 72.—General Officers and Clerks.

This item was estimated on basis of percentage determined in the same manner as organization expenses, the percentage being 1.417.

Account 73.—Law Expenses.

This item was estimated on basis of percentage determined in the same manner as organization expenses, the percentage being .635.

Account 74.—Stationery and Printing.

This item was estimated on basis of percentage determined in the same manner as organization expenses, the percentage being .120.

Account 75.—Taxes.

Taxes for cost of reproduction were estimated on basis of the taxes paid during the year ended June 30, 1914, it being assumed that the taxes begin to accrue at the end of the year during which the expenditures are made.

Accordingly, assuming that the work on The Kansas City Southern Railway System would progress at the rate of one-quarter of the total each year, the taxes accruing during construction, on basis of taxes paid for the year ended June 30, 1914, would be one-quarter for three years, one-quarter for two years and one-quarter for one year, or one and a half times the total taxes paid for year ended June 30, 1914.

Under the same theory and under two years' construction period, the taxes accruing during construction of the property of the Port Arthur Canal and Dock Company would be one-half of the taxes paid for the year ended June 30, 1914.

Since all of the other properties have a construction period of one year, it follows that on the basis indicated there would be no taxes during construction of those properties.

In this connection it may be remarked that in the event that the construction period did not conform exactly to the periods of assessment, the results would naturally be somewhat different from those given. The assumption made, however, is fair, for in such a case the taxes would be greater than is shown.

Account 76.—Interest During Construction.

This item, as in the case of organization expenses, is estimated on the assumption that all funds for reproduction would be raised from sale of stock at par, and is justified by the classification of investment in road and equipment prescribed by the Interstate Commerce Commission as of July 1, 1914, page 39.

Interest during construction is determined upon the theory that sufficient funds must be furnished at the beginning of promotion of the road to provide for all expenditures necessary for surveying and engineering, legal expenses, procuring right of way and other expenses of promotion and preparation, and that this will require ten millions of dollars to be expended during that year.

It is also assumed that for The Kansas City Southern Railway System one-quarter of the expenses for road and general expenses will be expended each year until the completion of the unballasted track and that the funds for this purpose will be provided for at the beginning of each year.

It is also assumed that all the funds necessary for ballasting the road will be furnished at the time of completion of the unballasted track. These funds to be expended within a year as stated.

It is also assumed that the funds necessary for the purchase of equipment will be provided for as follows:

One-quarter at the beginning of the second year of actual construction.
One-quarter at the beginning of the third year.
One-half at the beginning of the fourth year.

On the Port Arthur Canal and Dock Company it is assumed that the necessary funds must be provided one-half at the beginning of the third year of actual construction of The Kansas City Southern Railway System, and one-half at the beginning of the fourth year. This in order to bring the work of completion coincident with the completion of the unballasted track, as stated.

The funds necessary for the construction of The Kansas City, Shreveport & Gulf Terminal, The Arkansas Western Railway, The Poteau Valley Railroad, The K. C. S. Elevator and the Glenn-Pool Tank Line to be furnished at the beginning of the fourth year of the construction of The Kansas City Southern Railway System and expended within one year.

Interest during construction is figured at the rate of six per cent. per annum from the date the funds were furnished, as above stated, to the completion of the unballasted track, and on the cost of ballasting it is figured at the rate of six per cent. per annum for the year from the completion of the unballasted track to the completion of the ballasting.

As against the interest figured as stated credit is given for account of interest on bank balances at the rate of two per cent. per annum, assuming that the funds will be expended uniformly from the date they are provided until the date they are expended.

Account 77.—Other Expenditures—General.

This item was estimated on basis of percentage determined in the same manner as organization expenses, the percentage being .368.

COST OF REPRODUCTION LESS DEPRECIATION.

The cost of reproduction less depreciation of the physical property of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies has been estimated as follows:

Each piece of physical property was examined by a competent appraiser and a judgment formed as to the physical condition per cent.

The cost of reproduction less depreciation of each piece of property was then taken to be the cost of reproduction new multiplied by the estimated condition per cent.

The various conditions per cent. applicable to the physical property of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies were estimated with reference to the classification of road and equipment as prescribed by the Interstate Commerce Commission in the following manner:

Account 6.—Bridges, Trestles and Culverts.

The condition per cent. of "Bridges, Trestles and Culverts" was estimated by actual inspection by a representative of the Interstate Commerce Commission accompanied by a representative of the railway company, the latter taking copies of the notes and findings made by the representative of the Commission.

The representative of The Kansas City Southern Railway Company was instructed to co-operate with the representative of the Interstate Commerce Commission with a view to obtaining for the company a fair and proper condition per cent. upon the theory adopted by the representative of the Commission, and wherever possible to agree with him as to the condition per cent. under that theory, but in no event was he to commit The Kansas City Southern Railway Company to any particular theory.

Wooden Bridges and Trestles.

Wooden bridges were divided into ties, guard rails, stringers, caps, pilings and bracings—frame bents being considered separately.

An average life of 10 years was assumed for wooden bridges with a minimum condition per cent. of 50.

In some cases the bridge would be inspected generally without regard to the subdivisions above mentioned, and the condition per cent. estimated as follows:

Suppose the inspector should estimate that a given bridge taken as a whole had eight years of remaining life at date of inspection, at the end of which time its estimated condition per cent. would be 50. Then on basis of 10 years' total life the condition per cent. of that bridge would be 90.

In other cases the number of years of remaining life of each part would be estimated, and upon this basis the condition per cent. of that part would be estimated in the same manner as indicated in the above instance of a bridge considered as a whole. For instance:

Suppose it should be estimated that there would be five years remaining life in the piling, at the end of which time the condition per cent. would be 50. Then on basis of 10 years' life the condition per cent. of the piling would be 75.

Again, should the remaining life of the stringers of that same bridge be estimated to be four years, at the end of which time they would have depreciated 50 per cent., then on basis of 10 years' life the condition per cent. would be 70, and similarly for the other parts.

In such a case the condition per cent. of the bridge taken as a whole would be estimated by taking the cost of reproduction new of each part, and applying the ascertained condition per cent. thereto.

In estimating the condition per cent. no regard was paid to the dates on which wooden bridges were built.

Steel Bridges.

In the case of steel bridges, the structure was divided into ties and guard rails, metal spans and masonry.

The condition per cent. for the ties and guard rails was estimated in the same manner as that of wooden bridges.

In estimating the condition per cent. of the metal work the life was taken at 70 years, at the end of which time it was assumed that the span would have depreciated to scrap value.

The metal spans were then examined for plates showing date of erection.

The paint was then examined as to whether any of the metal was exposed. Portions covered with paint were inspected with a view to determining whether any of the parts of the metal had

been exposed, and subsequently covered with paint without having been cleaned, and upon this basis was estimated the condition per cent. of the metal work with respect to weather stress.

In estimating the condition per cent. of masonry, no regard was paid to the length of life, but condition per cent. was based upon the general appearance of the masonry, particularly with respect to whether there were any cracks, or other visible defects.

Culverts.

In the case of wooden stringers on masonry, the condition per cent. for wooden portions was estimated as indicated in wooden bridges and for the masonry as indicated under steel bridges.

In the case of masonry and concrete culverts the condition per cent. was estimated in the manner indicated for masonry in steel bridges.

In the case of wooden-box culverts the condition per cent. was estimated from general observation based upon the condition of the visible parts.

In the case of vitrified-pipe culverts, the condition per cent. was estimated from general observation based upon the condition of the visible parts.

In the case of cast-iron pipe culverts, the condition per cent. was estimated arbitrarily at about 100.

In the case of reinforced concrete pipe, the condition per cent. was estimated on practically the same basis as that of cast-iron pipe.

In the case of dry-culvert masonry, the condition per cent. was estimated on the general appearance of the visible parts of the culvert.

ACCOUNT 8.—TIES.

The condition per cent. of "Ties" was estimated as follows:

The average life of untreated ties was ascertained to be 7.95 years. This result was reached by beginning at the year 1898, during which year the first renewals of ties were made, and taking the renewals for each succeeding year until 1906, at which time the total tie renewals to that date were equal to the total number of ties which had originally been placed in the track.

The number of ties renewed each year was than multiplied by the number of years between the date of installation and the date of the renewal, and the total number of tie years was thus determined for all of the ties that originally had been placed in the track.

The total number of tie years thus reached was 21,356,077. This divided by the total number of ties, or 2,685,000 gives an average life of 7.95 years, as stated.

Upon the basis of the average life of 7.95 years for untreated ties established as indicated, the condition per cent. of untreated ties was estimated as follows:

The total number of untreated ties in the track as of June 30, 1914, as per inventory was:

Untreated ties in original track	2,652,137
Untreated ties in new track	574,585
Total	3,226,722

Beginning with the year June 30, 1914, the number of ties placed in the track each year was determined from the records, and this process was carried back until the total number of ties thus ascertained was equal to the total number of ties in track as of June 30, 1914. In this way the number of years since each tie had been placed in the track was determined.

This number of years was then deducted from the average life of the tie of 7.95 years, estimated as indicated, and the corresponding number of ties was multiplied by this remaining life in order to obtain the remaining tie years of life in those particular ties.

The total original tie years of untreated ties in the track as of June 30, 1914, was 3,226,722, multiplied by 7.95 or 25,652,440. The total number of remaining tie years of untreated ties in the track as of June 30, 1914, was 14,707,154. Therefore, the condition per cent. of untreated ties was 14,707,154, divided by 25,652,440, or 57.33 per cent.

The average life of treated ties was assumed to be 15 years. This assumption being based upon the best information available, there being no statistics applicable because treated ties had not been in use on The Kansas City Southern for a sufficient length of time—the first treated ties being installed by that company in 1909.

The total number of treated ties in track as of June 30, 1914, as per inventory, was 424,072.

The original tie years of treated ties in track as of June 30, 1914, was 424,072, multiplied by 15, or 6,361,080. The remaining life of treated ties in track June 30, 1914, estimated on basis of 15 years' life, there being no renewals, was 5,801,736. Therefore, the condition per cent. of treated ties equals 5,801,736, divided by 6,361,080, or 91.2 per cent.

The processes above described relate to cross-ties, switch-ties and crossing timbers. The condition per cent. of bridge ties being estimated as indicated in considering wooden bridges and trestles.

ACCOUNT 9.—RAILS.

The condition per cent. of "Rails" was estimated by measuring the amount of wear on the head of the rail at a sufficient number of points selected with reference to curves, tangents and other conditions which might affect the wear. The number of measurements taken being 3842.

The measurements were taken by means of a railograph machine, which reproduced the exact outline of the head upon a card. The area embraced within this outline was then measured by a planimeter, compared with the original area of the head and the total reduction in area determined.

The reduced area of the original rail section thus ascertained was divided by the original area of the rail section, and the condition per cent. for each measurement was ascertained.

For instance: In the case of an 85-pound rail the original area was 8.29 square inches. The reduced area developed by the measurements as indicated was 7.705 square inches. The condition per cent. of the rail in question would, therefore, be 7.705 divided by 8.29, or 92.94 per cent.

The condition per cent. thus ascertained is justified upon the ground that the weight of the rail is proportioned to its section, and also that the value of the rail so long as it remains in service is proportioned to its weight. That is, an 85-pound rail which has lost by wear five pounds, as shown by actual measurements, is practically as serviceable as an 80-pound rail so long as it remains in service. Therefore, the condition per cent. of such a rail would be 80 divided by 85, or 94 per cent.

ACCOUNT 10.—OTHER TRACK MATERIAL.

The condition per cent. of "Other Track Material" was based upon the proposition that such material in order to serve its purpose must be in at least as good physical condition as the rail itself.

Accordingly, the condition per cent. of "Other Track Material" for each valuation section was taken to be the same as the condition per cent. of the rail estimated as above indicated.

ACCOUNT 13.—RIGHT-OF-WAY FENCES.

The condition per cent. of "Right-of-Way Fences" was estimated from an inspection made by the field engineers while taking the inventory of the physical property.

The engineer as a result of this inspection would estimate the expenditure necessary to place the fence in as good condition as possible without the waste of serviceable material. The condition per cent. of fencing for each valuation section was then estimated by dividing the result just determined by the estimated cost of reproduction of the fences on that section.

ACCOUNT 15.—CROSSINGS AND SIGNS.

The condition per cent. of major crossings, such as overhead and underground crossings was estimated by the same parties, under the same conditions and in the same manner as the condition per cent. of bridges, trestles and culverts.

The condition per cent. of ordinary crossings and of signs was estimated by the same parties and in the same manner as the condition per cent. of right-of-way of fences.

ACCOUNT 16.—STATION AND OFFICE BUILDINGS.

The condition per cent. of "Station and Office Buildings" was estimated by the same parties and under the same conditions as the condition per cent. of bridges, trestles and culverts.

The buildings were divided generally into foundations, floors, side walls, interior work, openings and roof.

In some cases the building would be inspected generally without regard to the subdivisions indicated and the condition per cent. would be estimated on the general appearance of the structure taken as a whole.

In other cases the number of years of remaining life of each part would be estimated, and the condition per cent. established on basis of the total years of life of that particular part. For instance:

In the case of a shingle roof, the total length of life of the shingles was taken at 15 years. If in this case the inspector should judge the roof to have 10 years of remaining life, the condition per cent. of the shingles would be estimated at 66⅔, and similarly for the other parts.

In the case of stone or concrete buildings, the condition per cent. was estimated on the same basis as explained in connection with masonry bridges.

ACCOUNT 17.—ROADWAY BUILDINGS.

The condition per cent. of "Roadway Buildings" was estimated by the same parties, under the same conditions and in the same manner as the condition per cent. of station and office buildings.

ACCOUNT 18.—WATER STATIONS.

The condition per cent. of "Water Stations" was estimated by the same parties and under the same conditions as the condition per cent. of bridges, trestles and culverts.

In the case of steel water tanks, the condition per cent. was estimated generally in the same manner as indicated in connection with steel bridges.

ACCOUNT 19.—FUEL STATIONS.

The condition per cent. of "Fuel Stations" was estimated by the same parties, under the same conditions and in the same manner as the condition per cent. of wooden bridges and station and office buildings.

ACCOUNT 20.—SHOPS AND ENGINEHOUSES.

The condition per cent. of "Shops and Enginehouses" was estimated by the same parties, under the same conditions and in the same manner as the condition per cent. of station and office buildings.

ACCOUNT 21.—GRAIN ELEVATORS.

The condition per cent. of "Grain Elevators" was estimated by the same parties, under the same conditions and in the same manner as the condition per cent. of station and office buildings.

ACCOUNT 23.—WHARVES AND DOCKS.

The condition per cent. of "Wharves and Docks" was estimated by the same parties, under the same conditions and in the same manner as the condition per cent. of wooden bridges.

ACCOUNT 26.—TELEGRAPH AND TELEPHONE LINES.

In estimating the condition per cent. of "Telegraph and Telephone Lines" the poles were considered separately from the wire.

The telegraph poles were furnished by the Western Union Telegraph Company and the labor erecting the same was furnished by the carrier. The cost of this labor, but not the cost of the poles, was included in the inventory.

The condition per cent. of the poles was estimated upon the assumption that it was necessary to maintain the same at a minimum condition of 75 per cent., and it was assumed that the pole line had reached and was being maintained constantly at that condition per cent.

The condition per cent. of the copper wire was taken arbitrarily at 90, there being no data available from which an estimate could be made.

ACCOUNT 27.—SIGNALS AND INTERLOCKERS.

The condition per cent. of "Signals and Interlockers" was estimated by the same parties, under the same conditions and in the same manner as the condition per cent. of station and office buildings.

In the case of interlocking plants the condition per cent. on the buildings was estimated as indicated, and the condition per cent. on the interlocking apparatus was estimated more or less arbitrarily by general inspection.

ACCOUNT 37.—ROADWAY MACHINES.

These machines consisted principally of hand cars and push cars, which are subject to renewal from time to time as the individual items wear out, and which in order to perform their service it is estimated should be kept as a whole at a minimum condition per cent. of 75.

On account of the average age of such equipment it was estimated that the same had reached that minimum per cent.

ACCOUNT 38.—ROADWAY SMALL TOOLS.

The condition per cent. of "Roadway Small Tools" was estimated on the same basis as the condition per cent. of roadway machines, except that it was estimated that the minimum condition per cent. of such tools should not be less than 80 in order to perform their proper service.

ACCOUNT 44.—SHOP MACHINERY.

All the "Shop Machinery" of The Kansas City Southern was inspected by a representative of the Interstate Commerce Commission accompanied by a representative of the carrier.

The representative of the carrier was instructed to co-operate with the representative of the Commission with a view to agreeing, if possible, upon the condition per cent. under the theory adopted by the Government, but not to commit the carrier to that or any other theory.

In the course of the inspection it soon developed that the two representatives could not agree upon condition per cent. under any theory.

The principal reason why no agreement could be reached is that the Government insisted upon using the life of the machine as a basis of estimating its condition per cent., while as a matter of fact the life of a shop machine depends upon the amount of work it is required to perform, and this varies so widely for the same machine at different times, and for different machines of the same type at different places, that no intelligent estimate of the life can be made.

In view of this consideration the representative of the carrier was instructed to make his own report as to the condition per cent. of shop machinery and tools based upon his best judgment and experience.

Accordingly, he estimated the condition per cent. of each shop machine upon the theory that the loss in condition per cent. results from wear and not from age; that the working parts of necessity must be maintained in good condition, and that in addition to the actual loss in value caused by scars, corrosion, etc., a reasonable allowance must be made for deterioration of parts.

ACCOUNT 45.—POWER PLANT MACHINERY.

The condition per cent. of "Power Plant Machinery" was estimated in the same manner as the condition per cent. of shop machinery.

ACCOUNT 51.—STEAM LOCOMOTIVES.

Locomotive equipment of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies was inspected by a representative of the Interstate Commerce Commission accompanied by a representative of The Kansas City Southern Railway Company.

The representative of the carrier was instructed to co-operate with the representative of the Interstate Commerce Commission with a view to obtaining for the carrier a fair and proper condition per cent. under the theory adopted by the representative of the Commission, and wherever possible to agree with him as to the condition per cent. under that theory, but in no event was he to commit The Kansas City Southern Railway Company to any particular theory.

Each locomotive was first divided into two parts:

First.—The locomotive proper—

Consisting of all parts between the pilot and the draw bar between the locomotive and tender.

All parts of the locomotive such as the boiler, fire-box, flues, cylinders, frame, valve gear, etc., were examined for the purpose of determining the physical condition due to use.

Second.—The tender.

For purposes of inspection each tender was divided into trucks, underframe and cistern, and each of such parts was inspected with a view to determining its physical condition with respect to age and use.

The inspector of the Kansas City Southern Railway Company made detailed reports of the results of his inspection of locomotives as indicated.

He states that he differed widely from the results obtained by the Government inspector concerning the condition per cent. of the locomotive proper, but with respect to the tender he states that the condition per cent. established for the various parts by the Government inspector were reasonable from the standpoint taken by the Government.

The Kansas City Southern Railway Company, taking into consideration the reports of its inspector, decided to estimate the condition per cent. of locomotives theoretically on basis of the attached diagram marked "Exhibit K."

The life of the locomotive proper is assumed to be 30 years; of the tender, with steel underframe, 20 years, and of the tender, with wooden underframe, 15 years.

At the end of these periods the condition per cent. of both locomotive and tender due to age only is assumed to be 80.

The condition per cent. of both locomotive and tender due to use is estimated on basis of an assumed mileage between general repairs and the mileage made since the date at which the last general repairs were completed. For instance:

In the case of locomotive No. 51, the assumed mileage between general repairs is taken at 40,000 under normal average working conditions, and the average cost per mile of general repairs of the locomotive was determined by dividing the total cost of general repairs of all engines of that class since they went into service by the total mileage made by those engines while in service, which in the case of engine No. 51 is 6.01 cents per mile.

At the rate of 6.01 cents per mile, the total cost of repairs for 40,000 miles would be $2,404 and the average cost of locomotives of this class was $9,501.71, so that in making 40,000 miles a reduction in condition per cent. due to use would be 25.30 of the total cost of the locomotive.

The number of miles made by locomotive No. 51 since the last general repairs was 24,074, which is 62.43 per cent. of 40,000. The reduction in condition per cent. due to use in this locomotive would, therefore, be 62.43 of 25.30, the reduction in condition per cent. due to the whole 40,000 miles which is 15.79 per cent. of the total cost.

The age of locomotive No. 51 at June 30, 1914, the date of valuation, was 23 years, and its condition per cent. measured from the attached diagram was 84.9.

The total condition per cent. of the locomotive was, therefore—

Condition per cent. due to age	84.90
Less—Decrease in condition per cent. due to use	15.79
	69.11%

ACCOUNT 53.—FREIGHT TRAIN CARS.

The condition per cent. of "Freight Train Cars" was estimated by a representative of the Interstate Commerce Commission accompanied by a representative of The Kansas City Southern Railway Company.

In estimating the condition per cent. the representative of The Kansas City Southern Railway Company was instructed to co-operate with the representative of the Interstate Commerce Commission with a view to obtaining for the company a fair and proper condition per cent. under the theory adopted by the representative of the Commission, and wherever possible to agree with him as to the condition per cent. under that theory, but in no event was he to commit The Kansas City Southern Railway Company to any particular theory.

Each car on the line was inspected in detail, and an estimate was made of the percentage of the original cost applicable to the body and the percentage applicable to the trucks.

An estimate was then made of the expense of placing each part of the car in good order and condition and up to its standard rate of capacity when new.

Such parts as were practically new, because of recent renewals or otherwise, were taken at 100 condition per cent.

Such parts as had deteriorated were judged as to the proportion of the original strength and capacity that had been consumed by age and use, and on basis of this judgment the value of each part was estimated.

Upon the data thus obtained the condition per cent. of the car was estimated. For instance:

Suppose that in the case of a box car the cost of the body, including all parts above the trucks, had been estimated at 60 per cent. of the total cost, and that the cost of the trucks had been estimated at 40 per cent. of the total cost.

Suppose inspection had shown that it would require an expense of say 20 per cent. of the cost of the body to place it in good order and condition, and that it should be estimated that the original strength and capacity of the remaining parts of the body had deteriorated 25 per cent., then the deterioration of the body would be determined as follows:

To be made good by repairs, 20 per cent. of 60 per cent., or	12 per cent. of total cost of car.
General depletion, 25 per cent. of 60 per cent. less 12 per cent. to be made good by repairs, or 25 per cent. of 48 per cent., or	12 per cent. of total cost of car.
Total deterioration of body	24 per cent. of total cost of car.

Suppose, also, it should be estimated that the expense of placing the trucks in good order and condition would be 10 per cent. of their cost, and that the deterioration of the remaining parts

from age and use should be estimated at say 15 per cent. of their cost, then the condition per cent. of the trucks would be determined as follows:

To be made good by repairs, 10 per cent. of 40 per cent., or	4	per cent. of total cost of car.
General depletion, 15 per cent. of 40 per cent., less 4 per cent. to be made good by repairs, or 15 per cent. of 36 per cent., or	5.4	per cent. of total cost of car.
Total deterioration of trucks	9.4	per cent. of total cost of car.

The total depletion of the entire car being:

For body	24	per cent.
For trucks	9.4	per cent.
Total	33.4	per cent.

The condition per cent. of the entire car 100 per cent., less 33.4 per cent. or 66.6 per cent.

ACCOUNT 54.—PASSENGER TRAIN CARS.

The condition per cent. of "Passenger Train Cars" was estimated in the same manner and under the same conditions as the condition per cent. of freight train cars.

ACCOUNT 55.—WORK EQUIPMENT.

The condition per cent. of "Work Equipment" was estimated in the same manner and under the same conditions as the condition per cent. of freight train cars.

The weighted conditions per cent. of the various kinds of physical property of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies, as of date June 30, 1914, classified in accordance with the classification of the Interstate Commerce Commission are shown on Exhibits "L," "M," "N," "O," "P," "Q," "R" and "S" hereto attached.

Said exhibits also show these weighted conditions per cent. applied to the cost of reproduction new, the results of such application being what are understood to be the cost of reproduction less depreciation of each piece of physical property owned or used by the said companies for purposes of a common carrier as of June 30, 1914, as required by the Federal Valuation Act.

Exhibit "T" is a recapitulation of the cost of reproduction less depreciation of the physical properties of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies as of June 30, 1914, as shown by Exhibits "L," "M," "N," "O," "P," "Q," "R" and "S" hereto attached.

The conditions per cent. set forth in the attached exhibits show that all the physical properties of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies have been fully maintained with due regard to safety, efficiency and economy of operation.

The results of operation as evidenced by the books and records of the owning companies show that in no instance has any depreciation been restored to the investors through net returns in excess of legitimate return.

Therefore, in determining the "Fair Value" no deduction should be made for account of depreciation.

OTHER VALUES AND ELEMENTS OF VALUE.

Other values and elements of value as required by the Federal Valuation Act are understood to embrace all values and elements of value other than those included in the so-called "Cost Values" which, in whole or in part, could possibly be considered by the Commission and the courts in determining the "Fair Value" of transportation property.

As so far developed the "Other Values and Elements of Value" appertaining to the properties of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies, and the detailed methods of their determination, are shown on "Exhibit U" hereunto attached.

A recapitulation of "Other Values and Elements of Value" appertaining to all the companies involved, and as developed to this time, is shown on attached "Exhibit V."

The original cost to date, the cost of reproduction new and the cost of reproduction less depreciation, already considered, are based on the inventory of the physical properties classified according to the regulations of the Interstate Commerce Commission.

Consequently, those cost values naturally do not include certain other items of cost which are not embraced within the classification, and the regulations of the Commission. These, for convenience, will be considered under the head of

OTHER ITEMS OF COST.

The other items of cost not included in the cost values for reasons stated, but which are part of the cost of the creation, organization and development of the properties are:

WORKING CAPITAL.

This consists of supplies carried in stock in the interest of economy; bank balances necessary to meet current expenses pending the collection of current income and to provide for contingent losses and improvements required by law and other sums necessary for the successful operation and administration of the property.

The working capital of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies has been determined from the balance sheets as of June 30, 1914, and represents in the case of each company the net current assets as of that date, excluding balances between the various companies.

REORGANIZATION EXPENSES.

As originally projected the main line of The Kansas City Southern Railway System was owned or controlled by the Kansas City, Pittsburg & Gulf Railroad Company, the northern terminals at Kansas City were owned or controlled by the Kansas City Suburban Belt Railroad Company and the southern terminals at Port Arthur were owned by the Port Arthur Channel and Dock Company. These companies, while affiliated to some extent by ownership of securities, were independent as to operation.

None of these properties was able to sustain itself and it soon became apparent that the only remedy was a consolidation of ownership and control. Accordingly, The Kansas City Southern Railway Company was organized and the three properties were taken over by that company through foreclosure and brought as completely under a single ownership and control as the law would permit.

The results have fully justified the expense of the reorganization. Consequently, all that expense may fairly be regarded as a proper part of the cost of development and, as such, included in "Other Values and Elements of Value."

The expense of this reorganization includes all expenses of receivership, all expenses incurred in securing co-operation of security holders, all expenses of litigation and settlement of claims against the properties and numerous other expenses incident to liquidation.

INVESTMENTS IN TERMINAL COMPANIES.

In order to meet the public demand for minimum delay and expense in receiving and transferring passengers and freight, The Kansas City Southern Railway Company purchased one-twelfth of the capital stock of the Kansas City Terminal Railway Company and one-fourth of the capital stock of the Joplin Union Depot Company, thereby securing an undivided one-twelfth

interest in The Kansas City Terminal Railway property and an undivided one-fourth interest in the Joplin Union Depot property. The cost of these interests were not included in the cost values and should, therefore, be considered as other values and elements of value.

PROPERTY ABANDONED.

This includes the original cost of all transportation property justifiably abandoned in the course of the creation and development of the properties which had not been recovered at date of valuation and which until recovered may fairly be regarded as a part of the development cost.

PORT ARTHUR SHIP CANAL.

In order to avoid the difficulties and dangers incident to a deep water terminal at Sabine the Port Arthur Ship Canal was constructed by the Port Arthur Channel & Dock Company. On August 1, 1906, this canal, for convenience, was deeded to the Federal Government, but stands practically in the same relation to the properties of The Kansas City Southern Railway Company and its proprietary and subsidiary companies as if it had not been so deeded, with the advantage that the vendor, the Port Arthur Canal & Dock Company, was relieved of the expense of maintenance. The canal has fully justified itself as a means of developing and handling traffic and has contributed largely to the prosperity of the adjacent territory.

Therefore, the original cost of the canal should be included in the Federal Valuation as part of the cost of development.

FAIRMOUNT PARK.

This park was established in 1892 near Independence, Mo., by the Kansas City and Independence Air Line, a company subsidiary to the Kansas City Suburban Belt Railroad Company, for the purpose of developing passenger traffic and was operated as an amusement park until 1902.

The cost of establishing this park may properly be regarded as a part of the development cost of the property.

MENA LAND AND IMPROVEMENT COMPANY.

In order to comply with the requirements of the sixteen-hour law it became necessary in 1909 to abandon the division terminals at Mena, Ark., and provide new facilities at Heavener, Okla., and at De Queen, Ark. A large number of employees who had purchased homes at Mena were thus compelled to move, and in order to protect these employees from losses which they could not afford The Kansas City Southern Railway Company decided to purchase these homes.

For this purpose the Mena Land and Improvement Company was organized to take title to the property and to manage the same to the best advantage. The amount invested less sales and recoveries to June 30, 1914, may fairly be regarded as a part of the cost of the development of The Kansas City Southern Railway System.

DEFICIT FROM OPERATION.

All items under this head are based upon an assumed minimum fair rate of return of six per cent. per annum payable annually.

For convenience the deficit from operation of the properties of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies have been developed under several heads as shown:

Total Net Returns in Deficit of a Fair Return upon the Initial Investment Cost less Interest paid on Funds for the Investment.

This item for each company is six per cent. return on the initial investment cost shown on its exhibit of original cost to date, except interest during construction, from the date the cost was incurred to date of valuation, less total net returns to that date.

The results thus obtained, as set forth on "Exhibit V," show that with the exception of the Glenn-Pool Tank Line Company none of the companies earned a fair net return upon the original cost of its existing physical property.

Therefore, the deficits shown are part of the development cost and should be included in the valuation.

Fair Return on Accrued Deficit from Operation.

Items under this head represent six per cent. per annum payable annually on the deficit for each year from the date of accrual until made good by net returns in excess of six per cent. per annum.

These items should be included in the valuation because the assumed low rate of return of six per cent. per annum naturally calls for its payment at the end of each year if not oftener.

The total net returns having been applied against the fair return upon the original investment cost, there remains no net returns to apply to the following items which, therefore, represent development cost at date of valuation:

Fair Return on Aids, Gifts, Grants and Donations.

Six per cent. per annum payable annually on the value, at date of acquisition, of Aids, Gifts, Grants and Donations held or used for transportation purposes from date of investment to June 30, 1914.

Fair Return on Working Capital.

Six per cent. per annum payable annually on the amount of working capital as shown by the books of each company at the beginning of each year from the beginning of operation to June 30, 1914.

Fair Return on Reorganization Expenses.

Being six per cent. per annum payable annually upon reorganization expenses from the date the expense was incurred until June 30, 1914.

Fair Return on Property Abandoned.

Six per cent. per annum payable annually on original cost of property abandoned from date of abandonment to June 30, 1914.

Fair Return on Investment in Terminal Companies.

Six per cent. payable annually on amounts invested in Kansas City and Joplin joint terminals from date of investment to date of valuation.

Fair Return on Port Arthur Ship Canal.

Six per cent. per annum payable annually on cost of the canal from date deeded to United States until June 30, 1914.

Fair Return on Fairmount Park.

Six per cent. per annum payable annually on net cost from date of investment to June 30, 1914.

Fair Return on Mena Land and Improvement Property.

Six per cent. per annum payable annually on net cost of this property from date of investment to date of valuation.

In addition to the other items of cost there are certain elements of value which do not involve cost but which manifest themselves through enhanced safety and efficiency and through higher classes of service rendered to the public.

Since the investors are entitled to receive what the service rendered is reasonably worth, it follows that any cause or condition which improves the quality of the service increases the amount which the investors are entitled to receive and, consequently, must increase the valuation upon which they are entitled to a fair return. For convenience, "Other Values and Elements of Value" which do not represent cost will be called

Other Elements of Value.

Other elements of value, appertaining to the properties of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies have been determined with reference to the following classification:

Values due to improved physical condition of the property resulting from natural causes.
Values due to co-ordination of the subdivisions of the property.
Values due to co-ordination and co-operation of different properties.
Other values which do not involve specific cost but which should be included in other values and elements of value.

Values Due to Improved Physical Condition Resulting from Natural Causes.

It is held by some that these values should be offset against depreciation, but this position does not seem valid because they are not the opposite of depreciation. For all such values represent enhanced safety, efficiency and service, while depreciation in a well-maintained property does not impair either of these important conditions.

Adaptation and Solidification.

Because of adaptation and solidification a track may carry safely heavier trains at more than twice the speed that would be possible without it. Moreover, because of that condition the expense of maintenance both of track and equipment is diminished. Thus, there is brought about a higher quality of service at less expense.

Now, since the carrier is entitled to receive what the service rendered to the public is reasonably worth, it should receive greater compensation by reason of adaptation and solidification. Therefore, because of that condition the carrier is entitled to a fair return upon an increased value. This naturally gives rise to the question as to the amount by which the value should be increased.

As adaptation is generally reflected in the cost of widening cuts and fills, it would seem that only the value due to the natural solidification of embankments should be considered here. Under one theory this value is taken at the cost of producing the solidification by artificial means, which is estimated for The Kansas City Southern Railway properties to be 10 cents per cubic yard of embankment. Under another theory the value is taken at the estimated reduction in maintenance capitalized at the fair rate of return.

Under the first theory the increased value of The Kansas City Southern Railway System due to solidification of embankments would be:

22,692,400 cubic yards embankment at 10 cents, $2,269,240.

This is equivalent under the second theory to a reduction in track maintenance of $165.44 per mile of main line per annum and corresponds to a reduction in track force of four-tenths of a man per mile. And as the higher quality of service due to solidification would justify this amount of expense, the minimum value due to adaptation and solidification has been based on an assumed cost of 10 cents per cubic yard of embankment.

Under this head there might also be considered increase in value due to compaction of ballast, but as this may be offset by wear it is regarded as negligible.

There is also some increase in value due to solidification of crossings, but this is not considered of sufficient importance to justify an attempt to estimate it.

The same considerations apply to the proprietary and subsidiary railway properties.

Values Due to Co-ordination of the Subdivisions of the Property.

In considering reorganization expenses, page 29, it was shown that the main line and the northern and southern terminal properties owned and operated separately had less value than that of the same properties under a single ownership and control.

To secure this additional value it was necessary to incur the reorganization expenses shown in Exhibits "U" and "V."

With the exception of the subdivisions by States these seem to be the only subdivisions of the property which may fairly be recognized, so that the value due to their co-ordination will be taken at its cost as shown by the reorganization expenses.

Values Due to Co-ordination and Co-operation of Different Properties.

It is certain that the value of The Kansas City Southern Railway System by reason of its co-ordination and co-operation with the properties of other carriers is greater than its value would be if that system were operated in every respect without any regard to its contemporaries.

These values are represented by or result from

Undivided Interest in Terminal Companies.

As already stated, in considering "Investments in Terminal Companies" under the head of other items of cost, The Kansas City Southern Railway Company, in order to meet the demands for minimum delay and expense to the public in receiving, shipping and transferring freight, as well as the public demand for more comfort, greater convenience and less expense in traveling, purchased one-twelfth interest in the property of The Kansas City Terminal Railway Company and one-fourth interest in the property of the Joplin Union Depot Company.

The principal services rendered by these terminal companies are performed for the proprietary carriers at cost, and the total net returns of each terminal company from station privileges, switching and other public services rendered as an independent carrier is negligible when compared with a fair return upon the investment.

Considered as an independent carrier, the terminal companies are entitled to a fair return upon the "Fair Value" of their properties. For reasons stated, however, the operating resources of each company are limited to small net returns, plus the payment at cost by the proprietary carriers for services rendered to each, plus their contributions for making good the amount necessary to meet the taxes and fixed charges. As a consequence, neither of these companies in the nature of things can earn independently a fair return upon the "Fair Value" of its property.

Moreover, if each terminal company is treated as an independent carrier, each proprietary carrier would be entitled to earn with its own property, with respect to the facilities of the terminal companies, only sufficient to pay at cost for the services rendered by those companies, and to make good its own proportion of the deficits. As a result, nobody would receive a fair return upon the amount invested in the terminal facilities under consideration.

The only practicable remedy for this condition is for each proprietary carrier to add to its own valuation its undivided interest in the valuation of the terminal properties; to include in its net returns its proportion of the net returns of the terminal companies, and to treat the interest on the bonds of those companies guaranteed by each proprietary carrier as fixed charges.

As against this it might be held that should the amount invested in the joint facilities be represented principally by the bonds of the subsidiary company, the amount invested by each proprietary carrier in the capital stock would be comparatively small and the return upon that

amount would be too great. The answer is that the principal and interest of all bonds of the terminal companies have been guaranteed by the proprietary carriers both jointly and severally, so that the liability of each proprietary carrier is greater than with respect to its own outstanding bonds. The objection, therefore, can be not so valid as if urged against including in the valuation of any railroad property all proceeds of bonds invested therein.

It might also be objected that to add to the valuation of proprietary carriers the valuation of a subsidiary terminal company would be a duplication. The answer is that every such duplication may readily be avoided by disregarding the subsidiary companies and making a record to that effect.

There are, no doubt, other specious objections to including in the valuation of The Kansas City Southern Railway Company its undivided interest in the valuation of the terminal companies under consideration, but none that might stand in the face of the following facts and conditions:

1. Each terminal property was created and developed and is used to meet a public demand for better and less expensive service, and is recognized as the best means available for that purpose.
2. Towards meeting this demand, The Kansas City Southern Railway Company might have enlarged and improved its own terminals even though this means would not have been the best. In this case the right of The Kansas City Southern Railway Company to the valuation of the enlarged and improved facilities would be unquestioned.
3. The use of the best means by The Kansas City Southern Railway Company to meet a public demand cannot impair any rights which that company may have through the use of inferior means to meet the same demand.

For these reasons there should be included in valuation of The Kansas City Southern Railway Company by reason of its undivided interest in the properties mentioned the following amounts:

Undivided interest in The Kansas City Terminal Railway property.

Estimated fair value of that property as of June 30, 1914, as indicated by the records of The Kansas City Terminal Railway Company at that date, less $100,000, the amount paid by The Kansas City Southern Railway Company for one-twelfth interest in the capital stock of The Kansas City Terminal Railway Company, which was included in "Investments in Terminal Companies" under the head of "Other Items of Cost."

Undivided interest in the Joplin Union Depot property.

Estimated fair value of that property as of June 30, 1914, as indicated by the records of the Joplin Union Depot Company at that date, less $10,000, the amount paid by The Kansas City Southern Railway Company for one-fourth interest in the capital stock of the Joplin Union Depot Company, which was included in "Investments in Terminal Companies" under the head of "Other Items of Cost."

Elements of Economic Value.

In addition to the "Other Values and Elements of Value" which have been set forth there are certain elements of economic value which, even if adjusted as specifically inadmissible in determining the total valuation for a particular purpose, are nevertheless elements of cost and value attaching to the property and, therefore, should be given consideration either in whole or in part in estimating the "Fair Value." These as so far developed are as follows:

Interchange of Cars with Connections.

It is recognized that by reason of connections and interchange arrangements with other carriers an added value is given to the properties owned or controlled by The Kansas City Southern Railway Company.

The values resulting from these interchange arrangements are entirely independent of the cost values, and arise from resulting benefits and economies in the reduction of investment in equipment, saving in maintenance of equipment, saving in cost of transferring freight, saving in extra switching and saving in interest on commercial capital made available to the public by expedition of traffic.

Use of Property Jointly Owned with Other Carriers.

The Kansas City Southern Railway Company owns an undivided one-half interest with the connecting carrier in the station facilities at Coal Creek, Okla., Panama, Okla., and Howe, Okla.; said station facilities being used jointly by both carriers with equal rights with respect to such use.

By virtue of this joint ownership and use there is a value which has been estimated on the basis of the benefits and economies in reduction in investment, saving in station expense and saving in maintenance.

Joint Use of Facilities of Other Carriers.

In order to avoid the unnecessary duplication of tracks, The Kansas City, Pittsburg & Gulf Railroad Company, one of the predecessors of The Kansas City Southern Railway Company, entered into a contract with the Kansas City, Osceola & Southern Railroad Company for the joint use of the track of the latter company between Grandview and Belt Junction, a distance of 11.01 miles.

Since that time the track was taken over by the St. Louis & San Francisco Railroad Company, between which company and The Kansas City Southern Railway Company a similar contract was entered into prior to the date of valuation, and is still in effect.

The value attached to this joint use has been estimated on basis of the benefits and economies in reduction in investment and in saving of maintenance expense.

Fair Return on Other Elements of Value.

To the extent that The Kansas City Southern Railway Company and its proprietary and subsidiary companies are entitled to include in their valuations "Other Elements of Value" they are entitled to a fair return upon the same payable annually from the date of accrual to the date of valuation. And to the extent that such return is in arrears it may be regarded as a part of the development cost and should be considered in estimating the "Fair Value." On this basis the following items have been determined:

Fair Return on Adaptation and Solidification.

Six per cent. per annum payable annually upon this item calculated by the straight-line theory of appreciation.

Fair Return on Undivided Interest in Terminal Companies.

Six per cent. per annum payable annually upon the undivided interest of The Kansas City Southern Railway Company in the property of The Kansas City Terminal Railway Company and of the Joplin Union Depot Company from the date those interests were acquired to date of valuation.

Fair Return on Increases Due to Increased Prices of Land, Labor and Materials.

To the extent that The Kansas City Southern Railway Company and its proprietary and subsidiary companies are entitled to include in their valuation increases due to increased prices of land, labor and materials they are entitled to a fair return upon the same payable annually from the date of accrual to the date of valuation. And to the extent that such return is in arrears it may be fairly regarded as a part of the development cost and should be considered in estimating the "Fair Value."

The amount to which the fair return on increases due to increased prices of land, labor and materials is in arrears has been calculated by the straight-line theory of appreciation on a basis of six per cent. per annum payable annually.

VALUES DUE TO CO-ORDINATION OF PROPERTIES SITUATED IN DIFFERENT STATES.

The Federal Valuation Act provides that the Interstate Commerce Commission:

"shall show the value of the property of every common carrier as a whole and separately the value of its property in each of the several States and territories, and the District of Columbia, classified in detail as herein required."

The requirement as to classification indicates that this clause relates exclusively to the physical property, and that, therefore, it is the original cost to date, the cost of reproduction new and the cost of reproduction less depreciation that are to be subdivided.

These subdivisions are evidently intended for use by the States in the regulation of intrastate commerce. As so used, it is understood that the cost values in any given State will be considered independently of the cost values in other States.

Now The Kansas City Southern Railway System is divided by State lines into 12 parts, and it is certain that if the value of each of these parts is to be measured by the cost values appertaining thereto, then the value of the whole must be measured by the cost values of the property taken as a whole plus the value resulting from a continuous operation of the whole property.

This added value due to the continuous operation of the whole property has been estimated at six per cent. per annum on the basis of the benefits and economies in reduction of investment in equipment, saving in maintenance of equipment, saving in cost of transferring freight, saving in extra switching, saving in interest on commercial capital made available to the public by expedition of traffic.

The same condition obtains on The Arkansas Western Railway, which is divided into two parts by the Arkansas-Oklahoma State line, and the additional values due to co-ordination of the two parts are determined in the manner just indicated.

In addition to all the "Other Values and Elements of Value" which have been discussed, there are no doubt other important items of potential value which further research and investigation may develop and establish for consideration, either in whole or in part, in determining the "Fair Value" of the properties of The Kansas City Southern Railway Company and of its proprietary and subsidiary companies.

PROPERTY HELD FOR PURPOSES OTHER THAN THOSE OF A COMMON CARRIER.

Neither The Kansas City Southern Railway Company nor any of its proprietary or subsidiary companies hold any property which may be considered as falling distinctly under this head.

R. J. McCARTY,
Chairman Valuation Committee.

KANSAS CITY, MO.,
June 16, 1916.

EXHIBIT "A."

ANALYSIS OF FEDERAL VALUATION

BY

RICHARD J. McCARTY.

The purpose of this analysis is to establish a practical basis for the federal valuation of railroad property.

GENERAL PROVISIONS OF THE FEDERAL VALUATION ACT.

The Federal Valuation Act, approved March 1, 1913, is "An Act to amend an Act entitled 'An Act to regulate commerce' approved February 4, 1887," and for convenience its general provisions may be set forth briefly as follows:

The Interstate Commerce Commission is required to investigate, ascertain and report the value of all property owned or used by every common carrier subject to the provisions of the Act to regulate commerce.

The Commission shall make a detailed inventory of all such property, show the value thereof and classify the physical property in conformity with the classification of expenditures for road and equipment as prescribed by the Interstate Commerce Commission.

The Commission shall ascertain and report in detail as to each piece of property owned or used by said carrier for its purposes as a common carrier, the original cost to date, the cost of reproduction new and the cost of reproduction less depreciation.

The Commission shall in like manner ascertain and report separately other values and elements of value, if any, of the property of such common carrier.

The Commission shall show separately the property held for purposes other than those of a common carrier and the original cost and present value of the same.

All final valuations and the classification thereof shall be *prima facie* evidence of the value of the property in all proceedings under the Act to regulate commerce.

The practical significance of these provisions naturally depends upon the sense in which the term value is used.

USE OF THE TERM VALUE.

Value is an indefinite term and is used generally to denote whatever may be considered good or desirable, and, therefore, may have different meanings as applied to the same thing. To quote the words of one of the highest authorities on language:

"The value, therefore, of a thing is as variable as the humors and circumstances of men; it may be nothing or something very great in the same object at the same time in the eyes of different men." (Crabb's Syn.)

For instance:

The par value of a promissory note is the amount written on its face and is a measure of the legal right of the owner as against the maker.

The real value of the same note is the amount for which it may be sold or negotiated and is a measure of the ability and disposition of the maker to pay the principal and interest when due.

If the maker will not pay and cannot be made to pay, the real value may be nothing while the par value may be great.

EXHIBIT "A"—Continued.

Thus it is that, owing to the use of the term value in referring to entirely different things, the same promissory note may, and, in fact, often does, have two different values at the same time.

The same is true of railroad property, because the Supreme Court of the United States, in decisions involving the valuation of such property, not only uses the term value to denote entirely different things, but also distinguishes those things, the one from the other. This will be shown in the following discussion of the real value and the "Fair Value" of railroad property.

Real Value.

According to Webster:

"The real value of a thing is its utility."

This conception of VALUE as applied to railroad property is in exact accordance with the following affirmation of the Supreme Court of the United States in C., C., C. & St. L. Ry. Co. *vs.* Backus:

> "But the value of the property results from the use to which it is put and varies with the profitableness of that use, present and prospective, actual and anticipated. There is no pecuniary value outside of that which results from such use." (154 U. S. Sup. Ct., 445.)

In view of these definitions, and for the sake of clearness, the value to the owners, determined from the present and prospective net returns, will be referred to as the real value of railroad property.

Accordingly, the real value of a railroad property that reasonably can be depended upon to produce a certain regular annual net return is equivalent to an amount of money which, loaned on good security at the current rate would yield the equivalent of that net return. In fact, it is practically upon this basis that the values of railroad properties usually are rated in the markets of the world.

Therefore, by the generally accepted definition of value, by authority of the Supreme Court of the United States and by recognized commercial custom,

> The real value of railroad property is that which results from the present and prospective net returns.

Further along in C., C., C. & St. L. Ry. Co. *vs.* Backus, the Court rules that:

> "Will it be said that the taxation must be based simply on cost, when never was it held that the cost of a thing is the test of its value." (154 U. S. Sup. Ct., 449.)

In this ruling it is clear that value is used in the same sense as in the ruling previously quoted from the same case, and, therefore, means real value as determined from the present and prospective net return. Whence it follows that—

> Real value has no natural relation to cost.

Again, the Supreme Court of the United States in the Minnesota Rate Cases ruled that:

> "The value of the use as measured by return, cannot be made the criterion when the return itself is in question." (33 Sup. Ct. Rep., 765.)

In this ruling it is manifest that "the value of the use as measured by return" must be determined from the present and prospective net return, and, therefore, means the same thing as the real value. From this it follows that:

> Real value cannot be made the criterion when the net return is in question.

EXHIBIT "A"—Continued.

"Fair Value."

The Supreme Court of the United States in Smyth *vs.* Ames, considering the regulation of railroad rates, ruled that:

> "We hold, however, that the basis of all calculation as to the reasonableness of rates to be charged by a corporation maintaining a highway under legislative sanction must be the fair value of the property being used by it for the convenience of the public. And, in order to ascertain that value, the original cost of construction, the amount expended in permanent improvements, the amount and market value of its bonds and stock, the present as compared with the original cost of construction, the probable earning capacity of the property under particular rates prescribed by statute, and the sum required to meet operating expenses, are all matters for consideration, and are to be given such weight as may be just and right in each case. We do not say that there may not be other matters to be regarded in estimating the value of the property. What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience." (169 U. S., 546, 547.)

This ruling was reaffirmed by the Supreme Court of the United States in the San Diego Land and Town Company *vs.* National City Case (174 U. S., 757) and in the Minnesota Rate Cases (33 Sup. Ct. Rep., 754).

The first sentence of the ruling just quoted states in effect that the "Fair Value" of railroad property must be the basis of all calculations as to the reasonableness of rates. This, of course, is but another way of stating that:

> "Fair Value" must be the basis of all calculations for determining what the fair net return shall be.

The Court then states that in order to ascertain that value (referring to "Fair Value") consideration must be given to original cost, cost of permanent improvements and the present as compared with the original cost. From this it is clear that, in the estimation of the Court,

> "Fair Value" must be determined largely on basis of cost.

In the last sentence of the ruling the Court states in effect that the carrier is entitled to a fair return upon the value of the property. But "the value" here clearly means the same thing as "that value" previously used in referring to "Fair Value." Therefore, the sentence means that the carrier is entitled to a fair return upon the "Fair Value" of the property. From this it follows that,

> The "Fair Value" of railroad property is the full amount of money or its equivalent upon which the carrier is entitled to a fair rate of return.

Taking the ruling as a whole, it is manifest that in the judgment of the Court,

> "Fair Value" must be the criterion when the net return is in question.

Distinctions Between Real Value and "Fair Value."

In view of what has been set forth, it is manifest that the following distinctions between the real value and the "Fair Value" of railroad property are fully justified by decisions of the Supreme Court of the United States:

Real Value.	"Fair Value."
Real value must be determined from the present and prospective net return.	"Fair Value" must be the basis for determining what the fair net return shall be.
Real value bears no natural relation to cost of the property.	"Fair Value" must be determined largely on basis of cost of property.
Real value cannot be the criterion when the net return is in question.	"Fair Value" must be the criterion when the net return is in question.

EXHIBIT "A"—Continued.

In view of these distinctions it is certain that real value and "Fair Value" are entirely different in kind.

That real value and "Fair Value" as applied to the same property are not necessarily the same in amount may be shown thus:

Suppose, in the case of a given railroad property, that the "Fair Value," which under the ruling quoted from Smyth *vs.* Ames, "must be the basis of all calculations as to the reasonableness of rates," had been found as indicated in that ruling to be $100,000,000 and that the fair rate of return had been fixed at six per cent. per annum. Then, under the most rigorous rate regulation, the carrier would have a legal right to a net annual return of at least $6,000,000.

Now, suppose that, without any restrictions as to rates, the carrier could be depended upon to earn annually a maximum net return of not more than $4,800,000. Then, the real value, determined according to the ruling quoted from C., C., C. & St. L. Ry. Co. *vs.* Backus, would be not more than $80,000,000, or $20,000,000 less than the "Fair Value." Nor might it ever be possible to eliminate the difference.

Again, suppose that, without any restrictions as to rates, the carrier, because of favorable conditions, could be depended upon to earn annually a net return of $7,200,000. Then, under the theory that there would be no rate regulation, the real value determined as indicated in the Backus Case would be $120,000,000, or $20,000,000 more than the "Fair Value." But, should rate regulation be enforced to the limit of the law, the real value would be reduced and become equal to the "Fair Value."

The distinction between the real value and the "Fair Value" of different properties may be illustrated as follows:

Suppose the "Fair Value" of a given railroad property to be $50,000,000 and that, under legitimate rate regulation, the net return could be kept constantly at a fair return upon that amount. Then the real value and the "Fair Value" would each be $50,000,000.

Now, suppose the "Fair Value" of another railroad property to be $100,000,000 and that, without any restrictions as to rates, the net return could not reasonably be depended upon to exceed a fair return on $50,000,000. Then by recognized standards, the real value of the two properties would be the same, while the "Fair Value" of one would be double that of the other.

But one property has the right to a fair return upon $50,000,000 more than the other, and this right has a potential value which cannot fairly be ignored.

Thus it is clear that real value and "Fair Value" not only are different in kind but also must be different in amount unless the carrier is able to earn as much as or more than a fair return.

Considering rate regulation in the same light as competition or any other condition permanently affecting the net return, the distinction between real value and "Fair Value" may be stated broadly as follows:

Real value is a measure of ability to earn.

"Fair Value" is a measure of legal right to earn.

Since ability is not the measure of right, nor is right the measure of ability, the two are not the same.

This does not mean that a thing can have more than one value of the same kind at the same time, but it does mean that the term value does not signify the same thing in both cases. As a matter of fact, in real value it stands for actual utility to the owners as in a strict sense it should, but in "Fair Value" it stands for the amount upon which the carrier is entitled to a fair return, which does not necessarily mean value as measured by actual utility.

EXHIBIT "A"—Continued.

Value in the Federal Valuation Act.

Having shown that the term value is used by the Supreme Court of the United States to denote both the real value and the "Fair Value" of railroad property, and that the two are widely different, it is necessary to enquire in which sense the term is used in the Federal Valuation Act.

Since the real value of railroad property must be determined from the present and prospective net returns, it necessarily is based upon the prevalent opinions of those best informed and best able to judge concerning the extent to which the latest available net returns may be increased or diminished by probable or possible changes in financial, commercial and operating conditions. And it is well known that upon these opinions are based the current normal market prices of railroad securities.

That the value of railroad property determined from the current normal market prices of outstanding securities is recognized by the Supreme Court of the United States is shown by the following ruling in Taylor *vs.* Secor:

> "It is, therefore, obvious that, when you have ascertained the current cash value of the whole funded debt, and the current cash value of the entire number of shares, you have, by the action of those who above all others can best estimate it, ascertained the true value of the road, all its property, its capital stock and its franchises; for these are all represented by the value of its bonded debt and of the shares of its capital stock." (92 U. S., 618.)

Whence, it is that the fairest and most acceptable basis for determining the real value of any given railroad property is the total of all its securities taken at current normal market prices.

Consequently, were it the real value that is required by the Act, there would be no occasion for making the detailed inventory of the property and other findings which involve such great labor and expense.

Thus it is evident that the real value is not what the Valuation Act requires to be ascertained and reported.

In addition to this the Federal Valuation Act itself is an amendment to an Act entitled "An Act to regulate commerce," and as passed and approved it provides that—

> "All final valuations by the Commission and the classification thereof shall be published and shall be *prima facie* evidence of the value of the property in all proceedings under the Act to regulate commerce."

From this it is clear that the Valuation Act contemplates the regulation of commerce upon the basis of the valuations required to be found.

Now, considered with respect to railroad property, the regulation of commerce is confined to the regulation of service, the prevention of discrimination and the adjustment of the net return to the fair return by rate regulation. But, the valuations required by the Act are of little, if any, practical use in the regulation of service, or in the prevention of discrimination. Therefore, the provision quoted indicates that the required findings should be established with reference to their use in the adjustment of the net return to a fair return by the regulation of rates. But, if the valuations are to be available for the adjustment of the net return, it is axiomatic that they cannot be determined from the net return. Consequently, the real value, which has been shown to be "the value of the use as measured by return" cannot be the value required by the Act to be ascertained and reported. This, of course, is in full accord with the ruling already quoted from the Minnesota Rate Cases to the effect that:

> "The value of the use as measured by return cannot be made the criterion when the return itself is in question." (33 Sup. Ct. Rep., 765.)

Thus it is that, real value, not being admissible as *prima facie* evidence in all proceedings under the Act to regulate commerce, does not come within the scope of the Federal Valuation Act.

EXHIBIT "A"—Continued.

Whence it is clear that the term value as used in the Act does not denote the real value of the property.

It is now proper to enquire as to whether it is the "Fair Value" that is required by the Act to be ascertained and reported. To this end recourse will be had to the report of the Senate Committee concerning federal valuation as well as to the terms of the Act itself.

In the report of the Senate Committee there appears the following:

> "The committee recommends striking out the first five paragraphs of the House bill, which in some respects are indefinite and uncertain and deal with some matters not properly within the scope of a bill designed to provide for a valuation of the several classes of property of carriers subject to the Act to regulate commerce. In lieu thereof, the committee proposed certain amendments which it believes essential to enable the Commission to secure every element of the value of the property of the common carrier so classified and analyzed as to enable the Commission and the Courts to determine the fair value of such property for rate-making purposes." (49 C. R., 3796.)

which indicates that the Congress intended that there should be established a suitable basis for the determination of "Fair Value."

This was emphasized by Senator La Follette, who, in presenting to the Senate the report of the Senate Committee, stated that:

> "This bill does not prescribe the values that shall ultimately be assembled by the Interstate Commerce Commission in ascertaining the fair value as a basis for rate making, but it does direct the Interstate Commerce Commission to ascertain every element of value which, under the decisions of the Courts—the Courts are still in a transition period —is now being considered as properly included in ascertaining the fair value of the railroad property as a whole in fixing reasonable rates." (49 C. R., 3796.)

Here it is clear that every element which should be considered in fixing the "Fair Value" was intended to be ascertained and reported.

This is also indicated by the fact that the Valuation Act expressly requires to be ascertained and reported the original cost to date, the cost of reproduction new and the cost of reproduction less depreciation, all of which are especially recognized by the higher Courts as the most important items of "Fair Value" as a basis for rate regulation.

Whence it is clear that the term value in the Federal Valuation Act is used to denote the "Fair Value" of the property which, according to the Supreme Court of the United States "must be the basis of all calculations as to the reasonableness of rates."

Purposes of Federal Valuation.

The general requirement of the Federal Valuation Act is:

> "That the Commission shall, as hereinafter provided, investigate, ascertain and report the value of all the property owned or used by every common carrier subject to the provisions of this Act."

Now, while the Act thus requires the value of all the property it does not expressly require the total value of all the property.

It is true that in referring to the subdivisions as between States the Act mentions the property as a whole, but this clearly refers exclusively to the physical property.

Thus arises the question as to whether the Commission must determine accurately all values and elements of value and report to Congress a definite total of the same, or whether there should

EXHIBIT "A"—Continued.

be ascertained and reported only basic data for use in determining the total value as occasion may require.

The answer to this question naturally must be found in the reports and debates in Congress leading up to the passage and approval of the Act.

In this connection the Senate Committee in reporting upon federal valuation advanced the opinion that there should be secured:

> "every element of the value of the property of the common carrier so classified and analyzed as to enable the Commission and the Courts to determine the fair value of such property for rate-making purposes." (49 C. R., 3796.)

This indicates that nothing more than securing the data for determining "Fair Value" was intended.

Moreover, Senator La Follette, in presenting the report of the Senate Committee, stated that:

> "This bill does not prescribe the values that shall ultimately be assembled by the Interstate Commerce Commission in ascertaining the fair value as a basis for rate making." (49 C. R., 3796.)

Thus there was made an explicit disavowal of the purpose of requiring the Commission to determine every element of value accurately and then to report a definite total.

Furthermore, Senator Newlands said in course of the debate:

> "The Senator from Wisconsin (Mr. La Follette) * * * has insisted that we should in the bill itself * * * secure * * * every element of value which could possibly be considered by a Court in determining the question of fair valuation, and I think this bill is very accurately framed along that line." (49 C. R., 3806.)

This means that the Commission is not required to determine "Fair Value," but is required to ascertain and report the data necessary and sufficient for that purpose.

All of which shows that the purpose of the Federal Valuation Act is not the determination of the total valuation but the ascertainment of every element of value which attaches to the property and which could possibly be considered, either in whole or in part, by the Commission and the Courts in determining the "Fair Value" for rate regulation.

The valuations having been established on the basis indicated will, of course, be available for any purpose to which they may properly be applied.

Classification of Federal Valuation.

Concerning the classification of the various items to be ascertained and reported, the Federal Valuation Act provides that:

> "The Commission shall make an inventory which shall list the property of every common carrier subject to the provisions of this act in detail, and show the value thereof as hereinafter provided, and shall classify the physical property, as nearly as practicable, in conformity with the classification of expenditures for road and equipment, as prescribed by the Interstate Commerce Commission."

The Act also provides that:

> "said Commission shall ascertain and report in detail as to each piece of property owned or used by said common carrier for its purposes as a common carrier, the original cost to date, the cost of reproduction new, the cost of reproduction less depreciation, and an analysis of the methods by which these several costs are obtained, and the reason for their differences, if any."

EXHIBIT "A"—Continued.

In this last provision the use of the expression "in detail as to each piece of property" shows that the original cost to date, the cost of reproduction new and the cost of reproduction less depreciation are limited to the physical property owned or used for purposes of a common carrier.

Therefore, according to the provision first quoted, those quantities must be determined with reference to the classification of expenditures for road and equipment, as prescribed by the Interstate Commerce Commission.

Referring to the provision last quoted, the Act continues:

> "The Commission shall in like manner ascertain and report separately other values, and elements of value, if any, of the property of such common carrier, and an analysis of the methods of valuation employed, and of the reasons for any differences between any such value and each of the foregoing cost values."

In this provision the expression "Other Values and Elements of Value" is understood to include, as stated by Senator Newlands, "every element of value which could possibly be considered by a Court in determining the question of fair valuation," other than the physical property represented by the original cost to date, the cost of reproduction new and the cost of reproduction less depreciation, which are referred to as "cost values."

The Valuation Act also provides that:

> "Such investigation and report shall show separately the property held for purposes other than those of a common carrier, and the original cost and present value of the same, together with an analysis of the methods of valuation employed."

This provision is, of course, necessary in order that every item of the property of the carrier shall be given due consideration in connection with the valuation.

In view of what has been set forth, railroad property, considered with respect to federal valuation, may be classified in general terms as follows:

Physical property owned or used for purposes of a common carrier and classified in detail as prescribed by the Commission.
- Original cost to date.
- Cost of reproduction new.
- Cost of reproduction less depreciation.

Other values and elements of value.
- All values and elements of value other than those included in the "Cost Values" which, in whole or in part, could possibly be considered by the Commission and the Courts in determining the "Fair Value."

Property held for purposes other than those of a common carrier.
- Original cost.
- Present value.

Under this general classification federal valuation will now be considered with reference to its use as a basis for determining the "Fair Value" of railroad property which has been shown to be,

> The full amount of money or its equivalent upon which the carrier is entitled to a fair rate of return.

Original Cost to Date.

The original cost to date as required by the Federal Valuation Act is understood to be the cost of each piece of the physical property owned or used for purposes of a common carrier as the same existed at date of valuation, classified in conformity with the classification of expenditures for road and equipment as prescribed by the Interstate Commerce Commission.

EXHIBIT "A"—Continued.

As so understood the original cost to date of railroad property will be regarded as consisting of:

1. Initial investment cost.
   All initial expenditures for account of road and equipment made from proceeds of securities and from legitimate net returns.
2. Aids, gifts, grants and donations invested.
   Actual or estimated market values of aids, gifts and grants at date of their investment in the property.
3. Cost of renewals in excess or deficit of initial cost.
   All such costs as are included in operating expenses under the regulations of the Interstate Commerce Commission.
4. Other costs.
   All costs of physical property which are not included under any of the foregoing heads.

Original cost to date may be justified for consideration by the Commission and the Courts as an element of "Fair Value" by the accepted principle that,

> The investors are entitled to a fair rate of return upon every item of proper original cost from the time the cost was incurred until it shall have been fairly recovered from the property.

This principle is distinctly recognized by the Court of Appeals of New York in People *ex rel.* Kings County Lighting Company *vs.* Willcox *et al.*, thus:

> "The right to limit the corporation to a fair return fixed by public authority necessarily involves the correlative right in the corporation to be assured of that fair return during all the time that its capital is employed in the public service." (210 N. Y., 491.)

Cost of Reproduction New.

The Federal Valuation Act requires the cost of reproduction new in detail as to each piece of property owned or used for purposes of a common carrier and, as a consequence, under this head must be included at prices, as of the date of valuation, the identical pieces of physical property involved in the prescribed classification of original cost to date.

To the extent that cost of reproduction new equals the original cost to date, it may be justified for consideration by the Commission and the Courts as an element of "Fair Value" in the same manner as original cost.

The extent to which cost of reproduction new exceeds original cost to date is due, as a general rule, to increased prices of land, labor and materials which increases, under normal conditions, are accepted as indications of general prosperity.

Therefore, the excess of cost of reproduction over original cost, under ordinary conditions, may be justified by the accepted principle that—

> Every investor has the right to buy a thing under certain conditions, to hold it until certain other conditions obtain and then to sell it at a profit.

This principle is recognized in Cotting *vs.* Kansas City Stock Yards Company, in which case, the Federal Court, after giving reasons why, in rate regulation, neither the net returns nor the price of securities can be accepted as a basis of valuation, continues thus:

> "On the other hand, however, when property is valued for the purpose last stated, it is clear that the owner thereof is entitled to the benefit of any appreciation in value above the original cost and the cost of improvements which is due to natural causes." (82 Fed. Rep., 854.)

EXHIBIT "A"—Continued.

It was also recognized by the Supreme Court of the United States in Willcox *vs.* Consolidated Gas Company as follows:

> "If the property which legally enters into the consideration of the question of rates has increased in value since it was acquired, the company is entitled to the benefit of such increase." (212 U. S., 52.)

The same principle was accepted by the same Court in the Minnesota Rate Cases as follows:

> "Assuming that the company is entitled to a reasonable share in the general prosperity of the communities which it serves, and thus to attribute to its property an increase of value, still the increase so allowed, apart from any improvement it may make, cannot properly extend beyond the fair average of the normal market value of land in the vicinity having a similar character." (33 Sup. Ct. Rep., 762, 763.)

The excess in cost of reproduction new over original cost to date is sometimes due to donations of right of way and materials and to other particular conditions which make the original cost less than it otherwise would be.

Concerning cases of this kind the Federal Court in Ames *vs.* Union Pacific Railway Company ruled as follows:

> "No inquiry is open as to whether the owner has received gifts from State or individuals, or whether he has, as owner, managed the property well or ill, or so as to acquire a large fortune therefrom. It is enough that he owns the property—has a legal title; and, so owning he must be paid the actual value of that property. If he has done any wrong in acquiring or using the property, that wrong must be redressed in a direct action therefor, and cannot be made a factor in condemnation proceedings. These propositions in respect to condemnation proceedings are so well settled that no one ever questions them. The same general ideas must enter into and control legislation of the kind before us. The value of the property cannot be destroyed by legislation depriving the owner of adequate compensation. The power which the legislature has is only to prescribe reasonable rates, not any rates." (64 Feb., 176.)

From this it follows that the cost of reproduction new should include all physical property owned or used for purposes of a common carrier regardless of the conditions under which it was acquired.

In view of all that has been stated, it seems clear that a railroad carrier is entitled to any excess in cost of reproduction over original cost to date. But, since the property is permanently dedicated to railroad purposes, the only way in which this excess can be realized is to earn a fair return upon the same.

Therefore, as of any given date of valuation, any excess of cost of reproduction new over original cost to date is a proper item of "Fair Value."

It is certain that, in order to comply with the Valuation Act, the cost of reproduction new must include the exact amount of land contained in each piece of property owned or used for purposes of a common carrier. Furthermore, even without this specific provision in the Act, it is conceded that should there be included either more or less land than actually involved, then the estimate of cost of reproduction could not be justified.

Therefore, the cost of reproduction new of any given railroad property should include the exact amount of land owned or used for purposes of a common carrier.

Similarly, the cost of reproduction new should include the exact amounts of labor and materials invested in such property, for there is no more reason why there should be included more or less labor and materials than there is reason why there should be included more or less land.

EXHIBIT "A"—Continued.

Now it is certain that should the cost of reproduction new be estimated on basis of means and methods different from those originally employed then, except by accident, there would be included either more or less labor and materials than had been actually invested and, for reasons stated, the estimate could not be justified.

Therefore, the cost of reproduction new should be the estimated cost of all the physical property owned or used for purposes of a common carrier at date of valuation at prices then prevailing but with the means, methods and conditions under which the property was created, developed and brought to its existing state.

Cost of Reproduction Less Depreciation.

Depreciation as used in the Federal Valuation Act is understood to mean the difference estimated in money between the physical condition of the property new and its physical condition at date of valuation.

The cost of reproduction less depreciation of physical railroad property is understood to be determined by first estimating what is known as the condition per cent. of the various pieces of the physical property.

The cost of reproduction new of each piece is multiplied by the corresponding condition per cent. and the product is the cost of reproduction less depreciation.

The difference between the cost of reproduction new and the cost of reproduction less depreciation is what is here understood to be the depreciation of the physical property.

Since the cost of reproduction new has been discussed, it is necessary to consider here only the relation of depreciation to "Fair Value."

Depreciation.

Depreciation as required by the Federal Valuation Act is understood to relate only to those items of the classification which represent perishable physical property and not to engineering and other items of overhead costs incurred in original construction and equipment which would not be duplicated in the course of renewals.

It is certain that the total depreciation of any given railroad property at any given date must once have been a part of the original cost to date, and, therefore, must originally have come within the principle laid down by the Court of Appeals of New York in the Kings County Lighting Case already quoted to the effect that

> "The right to limit the corporation to a fair return fixed by public authority necessarily involves the correlative right in the corporation to be assured of that fair return during all the time that its capital is employed in the public service." (210 N. Y., 491.)

Now, concerning depreciation, the Supreme Court of the United States in Knoxville *vs.* Knoxville Water Company ruled that

> "Before coming to the question of profit at all the company is entitled to earn a sufficient sum annually to provide not only for current repairs, but for making good the depreciation and replacing the parts of the property when they come to the end of their life." (29 Sup. Ct. Rep., 152.)

From this it follows that all depreciation of railroad property should be regarded as a part of the original cost to date or of the cost of reproduction new, as the case may be, until it shall have been fairly recovered through net returns in excess of a legitimate return.

Therefore, in determining the "Fair Value" of railroad property, depreciation should be deducted only to the extent to which it may have been fairly restored to the investors.

EXHIBIT "A"—Continued.

"Other Values and Elements of Value."

"Other Values and Elements of Value," as already stated, embrace all values and elements of value other than those included in the "cost values" which, in whole or in part, could possibly be considered by the Commission and the Courts in determining "Fair Value" of railroad property. For purposes of discussion these may be classed under two general heads:

Other Items of Cost.

Under this head will be included all items appertaining to what is generally known as cost of going concern, consisting of all items of cost not included in original cost or cost of reproduction.

Other Elements of Value.

Under this head will be included all values due to natural causes and to conditions which do not involve specific cost, and which are not included in the cost of reproduction or under any other head.

Other Items of Cost.

All items of cost appertaining to other values and elements of value may be justified for consideration by the Commission and the Courts in determining "Fair Value" by the principle set forth in considering original cost to date to the effect that:

The investors are entitled to a fair rate of return upon every item of proper original cost from the time the cost was incurred until it shall have been fairly recovered from the property.

Which principle as was shown, is recognized by the Court of Appeals of New York in People *ex rel.* Kings County Lighting Company *vs.* Willcox *et al.*, thus:

"The right to limit the corporation to a fair return fixed by public authority necessarily involves the correlative right in the corporation to be assured of that fair return during all the time that its capital is employed in the public service." (210 N. Y., 491.)

The items which can be justified under the principle thus established may be classified in general terms as follows:

Working Capital.
Property Abandoned.
Deficit from Operation.

Miscellaneous:

Being all other costs incurred in the creation, improvement and development of the property not included in cost values.

Other Elements of Value.

"Other Values and Elements of Value" which do not involve specific cost and which are not included in cost of reproduction, or under any other head, for convenience, are classed as follows:

Values due to improved physical condition of the property resulting from natural causes.
Values due to co-ordination of the subdivisions of the property.
Values due to co-ordination and co-operation of different properties.
Other values which do not involve specific cost, but which should be included in "Other Values and Elements of Value."

EXHIBIT "A"—Continued.

To the extent that these values manifest themselves in enhanced safety and efficiency of the property and benefits to the public through higher classes of service they may be justified for consideration as elements of "Fair Value" under the recognized general principle that:

The investors are entitled to receive what the service rendered is reasonably worth.

Again, since the values under discussion are in fact increases in the value of the original property, they are recognized in a general way by the Supreme Court of the United States in the following rulings:

Smyth *vs.* Ames:

"What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience. On the other hand, what the public is entitled to demand is that no more be exacted from it for the use of a public highway than the services rendered by it are reasonably worth." (169 U. S., 547.)

Willcox *vs.* Consolidated Gas Company:

"If the property which legally enters into the consideration of the question of rates has increased in value since it was acquired, the company is entitled to the benefit of such increase." (212 U. S., 52.)

Values due to the improved physical condition of the property from natural causes are expressly recognized as elements of "Fair Value" in Cotting *vs.* Kansas City Stock Yards Company. In this case the Court, referring to rate regulation, ruled that:

"On the other hand, however, when property is valued for the purpose last stated, it is clear that the owner thereof is entitled to the benefit of any appreciation in value above the original cost and the cost of improvements which is due to natural causes." (82 Fed. Rep., 854.)

Now, it is well known that a roadbed improves from natural causes and that, as a consequence, safety and efficiency is enhanced and the value of the service rendered to the public increased.

Accordingly, there should be included in federal valuation as elements to be considered by the Commission and the Courts in the determination of "Fair Value" the following items due to natural causes:

Adaptation and solidification.

Other natural increases in value due to improved safety, and efficiency resulting from natural causes.

Values due to co-ordination of the natural and artificial subdivisions of the property are recognized by the Supreme Court of the United States in C., C., C. & St. L. Ry. Co. *vs.* Backus thus:

"The true value of a line of railroad is something more than an aggregation of the values of separate parts of it, operated separately. It is the aggregate of those values plus that arising from a connected operation of the whole, and each part of the road contributes not merely the value arising from its independent operation, but its mileage proportion of that flowing from a continuous and connected operation of the whole. This is no denial of the mathematical proposition that the whole is equal to the sum of all of its parts, because there is a value created by and resulting from the combined operation of all its parts as one continuous line. This is something which does not exist, and cannot exist, until the combination is formed." (154 U. S., 444.)

Values due to the co-ordination of the natural and artificial subdivisions of railroad property are reflected by enhanced efficiency and benefits to the public through expedition of traffic and general improvement in the service rendered to the public.

EXHIBIT "A"—Continued.

Consequently, there should be included in federal valuation for consideration by the Commission and the Courts in determining "Fair Value" for rate regulation all elements of value accruing to the property or to the public from co-ordination of the parts of the property, and which are manifested by—

Reduction of investment in equipment.
Saving in maintenance of equipment.
Saving in cost of transferring freight.
Saving in extra switching.
Saving in interest on commercial capital made available to the public by expedition of traffic.
Other items:

Due to improved service resulting from co-ordination of the parts of the property.

Values due to co-ordination and co-operation of different properties manifest themselves chiefly by general benefits to the properties and to the public through the maintenance of general channels of rapid, reliable and economical commercial intercourse with the leading markets of the world.

Such values are justified as elements of "Fair Value" in the same manner as the values due to the co-ordination of subdivisions of the same property.

Accordingly, there should be included in federal valuation for consideration by the Commission and the Courts in determining "Fair Value" for rate regulation all elements of value accruing to the property or to the public through:—

Undivided interest in terminal companies.
Use of property jointly owned with other carriers.
Joint use of facilities of other carriers.
Interchange of cars with connections.
Other means and methods of co-ordination and co-operation.

Other values which do not involve specific cost and are not included in "Cost Value" naturally must be justified for consideration as elements of "Fair Value" according to the conditions under which they manifest themselves.

In addition to the "Other Values and Elements of Value" that have been considered, there are, no doubt, other important items of potential value, some of which may obtain on one property and some on another, which may be justified for consideration by the Commission and the Courts in determining the "Fair Value" of railroad property either by the principles set forth or by others which further research and investigation may develop and establish.

PROPERTY HELD FOR PURPOSES OTHER THAN THOSE OF A COMMON CARRIER.

The Federal Valuation Act as already quoted provides that:

> "Such investigation and report shall show separately the property held for purposes other than those of a common carrier, and the original cost and present value of the same, together with an analysis of the methods of valuation employed."

The general purpose of this provision evidently is to make the schedule of property complete in order that it may be available, as occasion may require, for any purpose involving any or all the property owned, used or held by the carrier.

R. J. McCARTY.

KANSAS CITY, MO.,
January 10, 1916.

EXHIBIT "B."

ORIGINAL COST TO DATE.

STATEMENT OF ORIGINAL COST OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY SOUTHERN RAILWAY COMPANY, TEXARKANA & FORT SMITH RAILWAY COMPANY, KANSAS CITY, SHREVEPORT & GULF RAILWAY COMPANY, MAYWOOD & SUGAR CREEK RAILWAY COMPANY AND FORT SMITH & VAN BUREN RAILWAY COMPANY. AS OF DATE JUNE 30, 1914.

	Account	Initial Investment Cost	Aids, Gifts, Grants and Donations taken at Market Value at Date of Investment	Cost of Renewals in Excess or Deficit of Initial Cost	Other Costs	Original Cost to Date
	ROAD.					
1.	Engineering	$1,450,454.75	$938.37		$91,493.31	$1,542,886.43
2.	Land for transportation purposes	2,831,357.40	955,568.35		7,112.48	3,794,038.23
3.	Grading	9,791,524.95	71,727.36		663,431.25	10,526,683.56
4.	Underground power tubes					
5.	Tunnels and subways					
6.	Bridges, trestles and culverts	4,514,639.30	6,772.11	$201,874.50	947.85	4,724,233.76
7.	Elevated structures					
8.	Ties	1,396,434.26	47,642.76	950,807.19		2,394,884.21
9.	Rails	4,784,522.10	29.88	207,422.70		4,991,974.68
10.	Other track material	1,071,370.49	1,256.19	47,243.46	1,810.24	1,121,689.38
11.	Ballast	2,336,329.62	1,360.81		111,387.66	2,449,078.09
12.	Track-laying and surfacing	2,529,207.64	48,792.53		116,248.53	2,694,248.70
13.	Right-of-way fences	205,407.82	5,103.19	9,266.23	45.39	219,822.63
14.	Snow and sand fences and snowsheds					
15.	Crossings and signs	277,670.39	53,543.49	12,183.99	1,048.67	344,446.54
16.	Station and office buildings	984,546.04	6,850.63	19,490.10	24,253.79	1,035,149.56
17.	Roadway buildings	135,874.90		6,508.36		142,383.26
18.	Water stations	358,094.70		17,063.59		375,158.29
19.	Fuel stations	181,019.20		8,670.76		189,689.96
20.	Shops and enginehouses	1,106,752.38		53,012.31		1,159,764.69
21.	Grain elevators					
22.	Storage warehouses					
23.	Wharves and docks					
24.	Coal and ore wharves					
25.	Gas producing plants					
26.	Telegraph and telephone lines	103,361.94		5,858.24		109,220.18
27.	Signals and interlockers	30,993.16		1,484.57		32,477.73
28.	Power dams, canals and pipe lines					
29.	Power plant buildings					
30.	Power substation buildings					
31.	Power transmission systems					
32.	Power distribution systems					
33.	Power line poles and fixtures					
34.	Underground conduits					
35.	Miscellaneous structures					
36.	Paving					
37.	Roadway machines	32,150.01			1,539.97	33,689.98
38.	Roadway small tools	13,095.53		627.27		13,722.80
39.	Assessments for public improvements	292,420.14			14,002.87	306,423.01
40.	Revenues and operating expenses during construction	31,484.96				31,484.96
41.	Cost of road purchased					
42.	Reconstruction of road purchased	17,671.32				17,671.32
43.	Other expenditures—road					
44.	Shop machinery	677,629.40			32,411.37	710,040.77
45.	Power plant machinery	166,829.12				166,829.12
46.	Power substation apparatus					
47.	Unapplied construction material and supplies					
	TOTAL	$35,320,850.52	$1,199,585.67	$1,541,522.27	$1,065,733.38	$39,127,691.84
	EQUIPMENT.					
51.	Steam locomotives	$3,379,021.05				$3,379,021.05
52.	Other locomotives					
53.	Freight train cars	4,755,894.55				4,755,894.55
54.	Passenger train cars	520,154.73				520,154.73
55.	Motor equipment of cars					
56.	Floating equipment					
57.	Work equipment	836,186.33				836,186.33
58.	Miscellaneous equipment					
	TOTAL	$9,491,256.66				$9,491,256.66
	GENERAL EXPENDITURES.					
71.	Organization expenses	$1,248,475.97				$1,248,475.97
72.	General officers and clerks	177,078.98			$377,360.41	554,439.39
73.	Law	79,522.72			168,938.12	248,460.84
74.	Stationery and printing	16,919.41			30,033.82	46,953.23
75.	Taxes	159,109.11				159,109.11
76.	Interest during construction	1,528,124.05				1,528,124.05
77.	Other expenditures—general	82,014.24			61,975.67	143,989.91
	TOTAL	$3,291,244.48			$638,308.02	$3,929,552.50
	GRAND TOTAL	$48,103,351.66	$1,199,585.67	$1,541,522.27	$1,704,041.40	$52,548,501.00

EXHIBIT "C."

ORIGINAL COST TO DATE.

STATEMENT OF ORIGINAL COST OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY, SHREVEPORT & GULF TERMINAL COMPANY.
AS OF DATE JUNE 30, 1914.

	Account	Initial Investment Cost	Aids, Gifts, Grants and Donations taken at Market Value at Date of Investment	Cost of Renewals in Excess or Deficit of Initial Cost	Other Costs	Original Cost to Date
	ROAD.					
1.	Engineering	$4,081.69			$1,675.46	$5,757.15
2.	Land for transportation purposes	21,083.96				21,083.96
3.	Grading	6,371.60	$33.75			6,405.35
4.	Underground power tubes					
5.	Tunnels and subways					
6.	Bridges, trestles and culverts	3,663.40				3,663.40
7.	Elevated structures					
8.	Ties	1,242.76	126.82	$2,158.22		3,527.80
9.	Rails	3,332.52		429.71		3,762.23
10.	Other track material	3,291.00		74.94		3,365.94
11.	Ballast	3,335.03				3,335.03
12.	Track-laying and surfacing	2,367.34	57.45			2,424.79
13.	Right-of-way fences					
14.	Snow and sand fences and snowsheds					
15.	Crossings and signs	1,187.00				1,187.00
16.	Station and office buildings	79,735.95	343.29	5,081.20		85,160.44
17.	Roadway buildings					
18.	Water stations					
19.	Fuel stations					
20.	Shops and enginehouses					
21.	Grain elevators					
22.	Storage warehouses					
23.	Wharves and docks					
24.	Coal and ore wharves					
25.	Gas producing plants					
26.	Telegraph and telephone lines					
27.	Signals and interlockers					
28.	Power dams, canals and pipe lines					
29.	Power plant buildings					
30.	Power substation buildings					
31.	Power transmission systems					
32.	Power distribution systems					
33.	Power line poles and fixtures					
34.	Underground conduits					
35.	Miscellaneous structures					
36.	Paving					
37.	Roadway machines					
38.	Roadway small tools					
39.	Assessments for public improvements	13,113.92				13,113.92
40.	Revenues and operating expenses during construction					
41.	Cost of road purchased					
42.	Reconstruction of road purchased					
43.	Other expenditures—road					
44.	Shop machinery	141.77				141.77
45.	Power plant machinery					
46.	Power substation apparatus					
47.	Unapplied construction material and supplies					
	TOTAL	$142,947.94	$561.31	$7,744.07	$1,675.46	$152,928.78
	EQUIPMENT.					
51.	Steam locomotives					
52.	Other locomotives					
53.	Freight train cars					
54.	Passenger train cars					
55.	Motor equipment of cars					
56.	Floating equipment					
57.	Work equipment					
58.	Miscellaneous equipment					
	TOTAL					
	GENERAL EXPENDITURES.					
71.	Organization expenses	$2,151.00				$2,151.00
72.	General officers and clerks					
73.	Law	515.45				515.45
74.	Stationery and printing	229.00				229.00
75.	Taxes					
76.	Interest during construction					
77.	Other expenditures—general	24.00				24.00
	TOTAL	$2,919.45				$2,919.45
	GRAND TOTAL	$145,867.39	$561.31	$7,744.07	$1,675.46	$155,848.23

EXHIBIT "D."

ORIGINAL COST TO DATE.

STATEMENT OF ORIGINAL COST OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE ARKANSAS WESTERN RAILWAY COMPANY.
AS OF DATE JUNE 30, 1914.

	Account	Initial Investment Cost	Aids, Gifts, Grants and Donations taken at Market Value at Date of Investment	Cost of Renewals in Excess or Deficit of Initial Cost	Other Costs	Original Cost to Date
	ROAD.					
1.	Engineering	$12,515.88				$12,515.88
2.	Land for transportation purposes	3,583.29	$1,228.36			4,811.65
3.	Grading	46,943.31	980.02		$8,642.54	56,565.87
4.	Underground power tubes					
5.	Tunnels and subways					
6.	Bridges, trestles and culverts	26,945.93	367.00	Cr. $1,245.85		26,067.08
7.	Elevated structures					
8.	Ties	49,246.68	1,981.05	Cr. 5,999.77		45,227.96
9.	Rails	78,138.08				78,138.08
10.	Other track material	18,208.69	7.68			18,216.37
11.	Ballast	159.68				159.68
12.	Track-laying and surfacing	30,890.94	769.69			31,660.63
13.	Right-of-way fences	4,566.22	25.00			4,591.22
14.	Snow and sand fences and snowsheds					
15.	Crossings and signs	1,728.48	23.50			1,751.98
16.	Station and office buildings	6,749.37	761.44			7,510.81
17.	Roadway buildings	939.19				939.19
18.	Water stations	924.51				924.51
19.	Fuel stations					
20.	Shops and enginehouses	189.29				189.29
21.	Grain elevators					
22.	Storage warehouses					
23.	Wharves and docks					
24.	Coal and ore wharves					
25.	Gas producing plants					
26.	Telegraph and telephone lines	1,736.24				1,736.24
27.	Signals and interlockers					
28.	Power dams, canals and pipe lines					
29.	Power plant buildings					
30.	Power substation buildings					
31.	Power transmission systems					
32.	Power distribution systems					
33.	Power line poles and fixtures					
34.	Underground conduits					
35.	Miscellaneous structures					
36.	Paving					
37.	Roadway machines	237.81				237.81
38.	Roadway small tools	193.67				193.67
39.	Assessments for public improvements					
40.	Revenues and operating expenses during construction					
41.	Cost of road purchased					
42.	Reconstruction of road purchased					
43.	Other expenditures—road					
44.	Shop machinery					
45.	Power plant machinery					
46.	Power substation apparatus					
47.	Unapplied construction material and supplies					
	TOTAL	$283,897.26	$6,143.74	Cr. $7,245.62	$8,642.54	$291,437.92
	EQUIPMENT.					
51.	Steam locomotives					
52.	Other locomotives					
53.	Freight train cars					
54.	Passenger train cars					
55.	Motor equipment of cars					
56.	Floating equipment					
57.	Work equipment	$439.60				$439.60
58.	Miscellaneous equipment					
	TOTAL	$439.60				$439.60
	GENERAL EXPENDITURES.					
71.	Organization expenses	$81,608.66				$81,608.66
72.	General officers and clerks	4,131.06				4,131.06
73.	Law	1,851.25				1,851.25
74.	Stationery and printing	349.84				349.84
75.	Taxes					
76.	Interest during construction	29,226.55				29,226.55
77.	Other expenditures—general	1,072.85				1,072.85
	TOTAL	$118,240.21				$118,240.21
	GRAND TOTAL	$402,577.07	$6,143.74	Cr. $7,245.62	$8,642.54	$410,117.73

EXHIBIT "E."

ORIGINAL COST TO DATE.

STATEMENT OF ORIGINAL COST OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE POTEAU VALLEY RAILROAD COMPANY.

AS OF DATE JUNE 30, 1914.

Account	Initial Investment Cost	Aids, Gifts, Grants and Donations taken at Market Value at Date of Investment	Cost of Renewals in Excess or Deficit of Initial Cost	Other Costs	Original Cost to Date
ROAD.					
1. Engineering	$3,255.09				$3,255.09
2. Land for transportation purposes	983.94				983.94
3. Grading	24,453.89				24,453.89
4. Underground power tubes					
5. Tunnels and subways					
6. Bridges, trestles and culverts	5,179.56				5,179.56
7. Elevated structures					
8. Ties	10,724.18				10,724.18
9. Rails	14,829.33				14,829.33
10. Other track material	4,298.89				4,298.89
11. Ballast	516.96				516.96
12. Track-laying and surfacing	7,700.00				7,700.00
13. Right-of-way fences	702.61				702.61
14. Snow and sand fences and snowsheds					
15. Crossings and signs	204.23				204.23
16. Station and office buildings	1,232.25				1,232.25
17. Roadway buildings	47.56				47.56
18. Water stations					
19. Fuel stations					
20. Shops and enginehouses	917.51				917.51
21. Grain elevators					
22. Storage warehouses					
23. Wharves and docks					
24. Coal and ore wharves					
25. Gas producing plants					
26. Telegraph and telephone lines	323.62				323.62
27. Signals and interlockers					
28. Power dams, canals and pipe lines					
29. Power plant buildings					
30. Power substation buildings					
31. Power transmission systems					
32. Power distribution systems					
33. Power line poles and fixtures					
34. Underground conduits					
35. Miscellaneous structures					
36. Paving					
37. Roadway machines	51.76				51.76
38. Roadway small tools	54.16				54.16
39. Assessments for public improvements					
40. Revenues and operating expenses during construction					
41. Cost of road purchased					
42. Reconstruction of road purchased					
43. Other expenditures—road					
44. Shop machinery	53.32				53.32
45. Power plant machinery					
46. Power substation apparatus					
47. Unapplied construction material and supplies					
TOTAL	$75,528.86				$75,528.86
EQUIPMENT.					
51. Steam locomotives	$10,660.07				$10,660.07
52. Other locomotives					
53. Freight train cars					
54. Passenger train cars	2,142.72				2,142.72
55. Motor equipment of cars					
56. Floating equipment					
57. Work equipment					
58. Miscellaneous equipment					
TOTAL	$12,802.79				$12,802.79
GENERAL EXPENDITURES.					
71. Organization expenses	$5,707.42				$5,707.42
72. General officers and clerks	1,070.24				1,070.24
73. Law	479.61				479.61
74. Stationery and printing	90.63				90.63
75. Taxes					
76. Interest during construction					
77. Other expenditures—general	277.95				277.95
TOTAL	$7,625.85				$7,625.85
GRAND TOTAL	$95,957.50				$95,957.50

EXHIBIT "F."

ORIGINAL COST TO DATE.

STATEMENT OF ORIGINAL COST OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE PORT ARTHUR CANAL AND DOCK COMPANY.

AS OF DATE JUNE 30, 1914.

Account	Initial Investment Cost	Aids, Gifts, Grants and Donations taken at Market Value at Date of Investment	Cost of Renewals in Excess or Deficit of Initial Cost	Other Costs	Original Cost to Date
ROAD.					
1. Engineering	$46,353.13			$6,584.79	$52,937.92
2. Land for transportation purposes	411,959.06			15,779.75	427,738.81
3. Grading	15,610.94			711.67	16,322.61
4. Underground power tubes					
5. Tunnels and subways					
6. Bridges, trestles and culverts	15,739.26		$717.52		16,456.78
7. Elevated structures					
8. Ties	7,500.17		341.91		7,842.08
9. Rails	7,753.58		353.47		8,107.05
10. Other track material	4,778.05		217.82		4,995.87
11. Ballast	5,561.82			843.39	6,405.21
12. Track-laying and surfacing	6,059.64			530.41	6,590.05
13. Right-of-way fences					
14. Snow and sand fences and snowsheds					
15. Crossings and signs					
16. Station and office buildings	303,709.14	$404.00	13,441.38		317,554.52
17. Roadway buildings					
18. Water stations					
19. Fuel stations					
20. Shops and enginehouses					
21. Grain elevators	163,528.91		7,454.89		170,983.80
22. Storage warehouses					
23. Wharves and docks	472,939.34		75,390.06		548,329.40
24. Coal and ore wharves					
25. Gas producing plants					
26. Telegraph and telephone lines					
27. Signals and interlockers					
28. Power dams, canals and pipe lines					
29. Power plant buildings					
30. Power substation buildings					
31. Power transmission systems					
32. Power distribution systems					
33. Power line poles and fixtures					
34. Underground conduits					
35. Miscellaneous structures					
36. Paving					
37. Roadway machines					
38. Roadway small tools					
39. Assessments for public improvements					
40. Revenues and operating expenses during construction	55,806.43				55,806.43
41. Cost of road purchased					
42. Reconstruction of road purchased					
43. Other expenditures—road					
44. Shop machinery					
45. Power plant machinery					
46. Power substation apparatus					
47. Unapplied construction material and supplies					
TOTAL	$1,517,299.47	$404.00	$97,917.05	$24,450.01	$1,640,070.53
EQUIPMENT.					
51. Steam locomotives					
52. Other locomotives					
53. Freight train cars					
54. Passenger train cars					
55. Motor equipment of cars					
56. Floating equipment					
57. Work equipment					
58. Miscellaneous equipment					
TOTAL					
GENERAL EXPENDITURES.					
71. Organization expenses	$226,033.75				$226,033.75
72. General officers and clerks	4,978.11			$3,911.07	8,889.18
73. Law	8,984.57			9,548.23	18,532.80
74. Stationery and printing	3,912.11			2,467.76	6,379.87
75. Taxes					
76. Interest during construction	186,000.00				186,000.00
77. Other expenditures—general	33,275.75			3,675.04	36,950.79
TOTAL	$463,184.29			$19,602.10	$482,786.39
GRAND TOTAL	$1,980,483.76	$404.00	$97,917.05	$44,052.11	$2,122,856.92

EXHIBIT "G."

ORIGINAL COST TO DATE.

STATEMENT OF ORIGINAL COST OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE K. C. S. ELEVATOR COMPANY.
AS OF DATE JUNE 30, 1914.

Account	Initial Investment Cost	Aids, Gifts, Grants and Donations taken at Market Value at Date of Investment	Cost of Renewals in Excess or Deficit of Initial Cost	Other Costs	Original Cost to Date
ROAD.					
1. Engineering					
2. Land for transportation purposes					
3. Grading					
4. Underground power tubes					
5. Tunnels and subways					
6. Bridges, trestles and culverts					
7. Elevated structures					
8. Ties					
9. Rails					
10. Other track material					
11. Ballast					
12. Track-laying and surfacing					
13. Right-of-way fences					
14. Snow and sand fences and snowsheds					
15. Crossings and signs					
16. Station and office buildings					
17. Roadway buildings					
18. Water stations					
19. Fuel stations					
20. Shops and enginehouses					
21. Grain elevators	$136,878.79				$136,878.79
22. Storage warehouses					
23. Wharves and docks					
24. Coal and ore wharves					
25. Gas producing plants					
26. Telegraph and telephone lines					
27. Signals and interlockers					
28. Power dams, canals and pipe lines					
29. Power plant buildings					
30. Power substation buildings					
31. Power transmission systems					
32. Power distribution systems					
33. Power line poles and fixtures					
34. Underground conduits					
35. Miscellaneous structures					
36. Paving					
37. Roadway machines					
38. Roadway small tools					
39. Assessments for public improvements					
40. Revenues and operating expenses during construction					
41. Cost of road purchased					
42. Reconstruction of road purchased					
43. Other expenditures—road					
44. Shop machinery					
45. Power plant machinery					
46. Power substation apparatus					
47. Unapplied construction material and supplies					
TOTAL	$136,878.79				$136,878.79
EQUIPMENT.					
51. Steam locomotives					
52. Other locomotives					
53. Freight train cars					
54. Passenger train cars					
55. Motor equipment of cars					
56. Floating equipment					
57. Work equipment					
58. Miscellaneous equipment					
TOTAL					
GENERAL EXPENDITURES.					
71. Organization expenses				$56.75	$56.75
72. General officers and clerks					
73. Law				5.00	5.00
74. Stationery and printing				9.50	9.50
75. Taxes					
76. Interest during construction					
77. Other expenditures—general				1.95	1.95
TOTAL				$73.20	$73.20
GRAND TOTAL	$136,878.79			$73.20	$136,951.99

EXHIBIT "H."

ORIGINAL COST TO DATE.

STATEMENT OF ORIGINAL COST OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE GLENN-POOL TANK LINE COMPANY.
AS OF DATE JUNE 30, 1914.

Account	Initial Investment Cost	Aids, Gifts, Grants and Donations taken at Market Value at Date of Investment	Cost of Renewals in Excess or Deficit of Initial Cost	Other Costs	Original Cost to Date
ROAD.					
1. Engineering					
2. Land for transportation purposes					
3. Grading					
4. Underground power tubes					
5. Tunnels and subways					
6. Bridges, trestles and culverts					
7. Elevated structures					
8. Ties					
9. Rails					
10. Other track material					
11. Ballast					
12. Track-laying and surfacing					
13. Right-of-way fences					
14. Snow and sand fences and snowsheds					
15. Crossings and signs					
16. Station and office buildings					
17. Roadway buildings					
18. Water stations					
19. Fuel stations					
20. Shops and enginehouses					
21. Grain elevators					
22. Storage warehouses					
23. Wharves and docks					
24. Coal and ore wharves					
25. Gas producing plants					
26. Telegraph and telephone lines					
27. Signals and interlockers					
28. Power dams, canals and pipe lines					
29. Power plant buildings					
30. Power substation buildings					
31. Power transmission systems					
32. Power distribution systems					
33. Power line poles and fixtures					
34. Underground conduits					
35. Miscellaneous structures					
36. Paving					
37. Roadway machines					
38. Roadway small tools					
39. Assessments for public improvements					
40. Revenues and operating expenses during construction					
41. Cost of road purchased					
42. Reconstruction of road purchased					
43. Other expenditures—road					
44. Shop machinery					
45. Power plant machinery					
46. Power substation apparatus					
47. Unapplied construction material and supplies					
TOTAL					
EQUIPMENT.					
51. Steam locomotives					
52. Other locomotives					
53. Freight train cars	$178,195.05				$178,195.05
54. Passenger train cars					
55. Motor equipment of cars					
56. Floating equipment					
57. Work equipment					
58. Miscellaneous equipment					
TOTAL	$178,195.05				$178,195.05
GENERAL EXPENDITURES.					
71. Organization expenses				$309.25	$309.25
72. General officers and clerks					
73. Law				100.00	100.00
74. Stationery and printing				42.75	42.75
75. Taxes					
76. Interest during construction					
77. Other expenditures—general				8.33	8.33
TOTAL				$460.33	$460.33
GRAND TOTAL	$178,195.05			$460.33	$178,655.38

The above total, $178,655.38, is the total original cost to date of the property of the Glenn-Pool Tank Line Company as it existed at date of valuation. Of this amount The Kansas City Southern Railway Company owns 75 per cent. through the ownership of 75 per cent. of the total capital stock of the Glenn-Pool Tank Line Company, or: 75 per cent., $178,655.38 = $133,991.53.

EXHIBIT "I."

ORIGINAL COST TO DATE.

STATEMENT OF ORIGINAL COST OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY SOUTHERN RAILWAY COMPANY AND ITS SUBSIDIARY AND PROPRIETARY COMPANIES.
AS OF DATE JUNE 30, 1914.

Account	The Kansas City Southern Ry., Texarkana & Fort Smith Ry., Kansas City, Shreveport & Gulf Ry., Maywood & Sugar Creek Ry., Fort Smith & Van Buren Ry.	The Kansas City, Shreveport & Gulf Terminal	The Arkansas Western Ry.	The Poteau Valley Railroad	Port Arthur Canal and Dock	The K. C. S. Elevator	Glenn-Pool Tank Line (The K. C. S. Ry. ownership 75 per cent.)	Total All Companies
ROAD.								
1. Engineering	$1,542,886.43	$5,757.15	$12,515.88	$3,255.09	$52,937.92			$1,617,352.47
2. Land for transportation purposes	3,794,038.23	21,083.96	4,811.65	983.94	427,738.81			4,248,656.59
3. Grading	10,526,683.56	6,405.35	56,565.87	24,453.89	16,322.61			10,630,431.28
4. Underground power tubes								
5. Tunnels and subways								
6. Bridges, trestles and culverts	4,724,233.76	3,663.40	26,067.08	5,179.56	16,456.78			4,775,600.58
7. Elevated structures								
8. Ties	2,394,884.21	3,527.80	45,227.96	10,724.18	7,842.08			2,462,206.23
9. Rails	4,991,974.68	3,762.23	78,138.08	14,829.33	8,107.05			5,096,811.57
10. Other track material	1,121,689.38	3,365.94	18,216.37	4,298.89	4,995.87			1,152,566.45
11. Ballast	2,449,078.09	3,335.03	159.68	516.96	6,405.21			2,459,494.97
12. Track-laying and surfacing	2,694,248.70	2,424.79	31,660.63	7,700.06	6,590.05			2,742,624.17
13. Right-of-way fences	219,822.63		4,591.22	702.61				225,116.46
14. Snow and sand fences and snowsheds								
15. Crossings and signs	344,446.54	1,187.00	1,751.98	204.23				347,589.75
16. Station and office buildings	1,035,149.56	85,160.44	7,510.81	1,232.25	317,554.52			1,446,607.58
17. Roadway buildings	142,383.26		939.19	47.56				143,370.01
18. Water stations	375,158.29		924.51					376,082.80
19. Fuel stations	189,689.96							189,689.96
20. Shops and enginehouses	1,159,764.69		189.29	917.51				1,160,871.49
21. Grain elevators					170,983.80	$136,878.79		307,862.59
22. Storage warehouses								
23. Wharves and docks					548,329.40			548,329.40
24. Coal and ore wharves								
25. Gas producing plants								
26. Telegraph and telephone lines	109,220.18		1,736.24	323.62				111,280.04
27. Signals and interlockers	32,477.73							32,477.73
28. Power dams, canals and pipe lines								
29. Power plant buildings								
30. Power substation buildings								
31. Power transmission systems								
32. Power distribution systems								
33. Power line poles and fixtures								
34. Underground conduits								
35. Miscellaneous structures								
36. Paving								
37. Roadway machines	33,689.98		237.81	51.76				33,979.55
38. Roadway small tools	13,722.80		193.67	54.16				13,970.63
39. Assessments for public improvements	306,423.01	13,113.92						319,536.93
40. Revenues and operating expenses during construction	31,484.96				55,806.43			87,291.39
41. Cost of road purchased								
42. Reconstruction of road purchased	17,671.32							17,671.32
43. Other expenditures—road								
44. Shop machinery	710,040.77	141.77		53.32				710,235.86
45. Power plant machinery	166,829.12							166,829.12
46. Power substation apparatus								
47. Unapplied construction material and supplies								
TOTAL	$39,127,691.84	$152,928.78	$291,437.92	$75,528.86	$1,640,070.53	$136,878.79		$41,424,536.72
EQUIPMENT.								
51. Steam locomotives	$3,379,021.05			$10,660.07				$3,389,681.12
52. Other locomotives								
53. Freight train cars	4,755,894.55						$133,646.29	4,889,540.84
54. Passenger train cars	520,154.73			2,142.72				522,297.45
55. Motor equipment of cars								
56. Floating equipment								
57. Work equipment	836,186.33		$439.60					836,625.93
58. Miscellaneous equipment								
TOTAL	$9,491,256.66		$439.60	$12,802.79			$133,646.29	$9,638,145.34
GENERAL EXPENDITURES.								
71. Organization expenses	$1,248,475.97	$2,151.00	$81,608.66	$5,707.42	$226,033.75	$56.75	$231.93	$1,564,265.48
72. General officers and clerks	554,439.39		4,131.06	1,070.24	8,889.18			568,529.87
73. Law	248,460.84	515.45	1,851.25	479.61	18,532.80	5.00	75.00	269,919.95
74. Stationery and printing	46,953.23	229.00	349.84	90.63	6,379.87	9.50	32.07	54,044.14
75. Taxes	159,109.11							159,109.11
76. Interest during construction	1,528,124.05		29,226.55		186,000.00			1,743,350.60
77. Other expenditures—general	143,989.91	24.00	1,072.85	277.95	36,950.79	1.95	6.24	182,323.69
TOTAL	$3,929,552.50	$2,919.45	$118,240.21	$7,625.85	$482,786.39	$73.20	$345.24	$4,541,542.84
GRAND TOTAL	$52,548,501.00	$155,848.23	$410,117.73	$95,957.50	$2,122,856.92	$136,951.99	$133,991.53	$55,604,224.90

EXHIBIT "J."

COST OF REPRODUCTION NEW.

TENTATIVE STATEMENT OF COST OF REPRODUCTION NEW OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY SOUTHERN RAILWAY COMPANY AND ITS SUBSIDIARY AND PROPRIETARY COMPANIES.
AS OF DATE JUNE 30, 1914.

Account	The Kansas City Southern Ry., Texarkana & Fort Smith Ry., Kansas City, Shreveport & Gulf Ry., Maywood & Sugar Creek Ry., Fort Smith & Van Buren Ry.	The Kansas City, Shreveport & Gulf Terminal	The Arkansas Western Ry.	The Poteau Valley Railroad	Port Arthur Canal and Dock	The K. C. S. Elevator	Glenn-Pool Tank Line (The K. C. S. Ry. ownership 75 per cent.)	Total All Companies
ROAD.								
1. Engineering	$1,723,152.34	$5,998.45	$16,383.25	$4,213.04	$56,418.15			$1,806,165.23
2. Land for transportation purposes	12,879,667.68	109,540.70	21,348.46	4,488.13	3,696,055.15			16,711,100.12
3. Grading	12,719,026.32	12,553.43	88,864.39	35,575.75	17,149.33			12,873,169.22
4. Underground power tubes								
5. Tunnels and subways								
6. Bridges, trestles and culverts	5,085,524.77	4,689.16	28,072.50	5,396.00	20,680.54			5,144,362.97
7. Elevated structures								
8. Ties	2,960,171.55	3,816.65	58,694.24	12,219.04	10,097.73			3,044,999.21
9. Rails	5,074,946.81	3,550.01	96,431.29	18,952.49	9,152.13			5,203,032.73
10. Other track material	1,163,272.86	3,071.23	19,681.64	4,611.77	5,136.87			1,195,774.37
11. Ballast	2,721,358.32	2,694.17	172.74	497.38	7,744.94			2,732,467.55
12. Track-laying and surfacing	3,120,417.95	2,507.99	48,062.45	11,207.89	6,290.84			3,188,487.12
13. Right-of-way fences	223,094.28		4,717.20	736.06				228,547.54
14. Snow and sand fences and snowsheds								
15. Crossings and signs	343,114.16	1,187.00	1,751.98	204.23				346,257.37
16. Station and office buildings	1,055,123.44	84,046.73	7,813.95	1,365.31	379,292.56			1,527,641.99
17. Roadway buildings	169,380.51		1,165.27	84.14				170,829.92
18. Water stations	375,158.29		924.51					376,082.80
19. Fuel stations	189,680.96							189,680.96
20. Shops and enginehouses	1,159,749.75		189.29	917.51				1,160,856.55
21. Grain elevators					202,637.73	$187,321.70		389,959.43
22. Storage warehouses								
23. Wharves and docks					577,431.55			577,431.55
24. Coal and ore wharves								
25. Gas producing plants								
26. Telegraph and telephone lines	112,868.50		1,836.85	343.07				115,048.42
27. Signals and interlockers	35,051.38							35,051.38
28. Power dams, canals and pipe lines								
29. Power plant buildings								
30. Power substation buildings								
31. Power transmission systems								
32. Power distribution systems								
33. Power line poles and fixtures								
34. Underground conduits								
35. Miscellaneous structures								
36. Paving								
37. Roadway machines	33,689.98		237.81	51.76				33,979.55
38. Roadway small tools	13,722.80		193.67	54.16				13,970.63
39. Assessments for public improvements	306,340.61	13,113.92						319,454.53
40. Revenues and operating expenses during construction								
41. Cost of road purchased								
42. Reconstruction of road purchased								
43. Other expenditures—road								
44. Shop machinery	710,040.77	141.77		53.32				710,235.86
45. Power plant machinery	166,829.12							166,829.12
46. Power substation apparatus								
47. Unapplied construction material and supplies								
TOTAL	$52,341,592.15	$246,911.21	$396,541.49	$100,971.05	$4,988,087.52	$187,321.70		$58,261,425.12
EQUIPMENT.								
51. Steam locomotives	$3,324,746.08			$12,632.07				$3,337,378.15
52. Other locomotives								
53. Freight train cars	4,822,735.68						$127,706.29	4,950,441.97
54. Passenger train cars	557,024.75			4,706.35				561,731.10
55. Motor equipment of cars								
56. Floating equipment								
57. Work equipment	814,315.04		626.64					814,941.68
58. Miscellaneous equipment								
TOTAL	$9,518,821.55		$626.64	$17,338.42			$127,706.29	$9,664,492.90
GENERAL EXPENDITURES.								
71. Organization expenses	$4,049,995.60	$16,011.28	$25,753.88	$7,644.08	$323,860.57	$12,147.12	$8,281.28	$4,443,693.81
72. General officers and clerks	741,680.36	3,498.73	5,618.99	1,430.76	70,681.20	2,654.35	1,809.60	827,373.99
73. Law	332,369.11	1,567.89	2,518.04	641.17	31,674.36	1,189.49	810.93	370,770.99
74. Stationery and printing	62,809.91	296.29	475.85	121.17	5,985.70	224.79	153.25	70,066.96
75. Taxes	851,786.00				6,250.00			858,036.00
76. Interest during construction	10,225,842.21	16,151.64	25,979.65	7,711.09	490,049.60	12,253.61	8,353.88	10,786,341.68
77. Other expenditures—general	192,617.06	908.63	1,459.27	371.57	18,356.16	689.34	469.96	214,871.99
TOTAL	$16,457,100.25	$38,434.46	$61,805.68	$17,919.84	$946,857.59	$29,158.70	$19,878.90	$17,571,155.42
GRAND TOTAL	$78,317,513.95	$285,345.67	$458,973.81	$136,229.31	$5,934,945.11	$216,480.40	$147,585.19	$85,497,073.44

EXHIBIT "K."

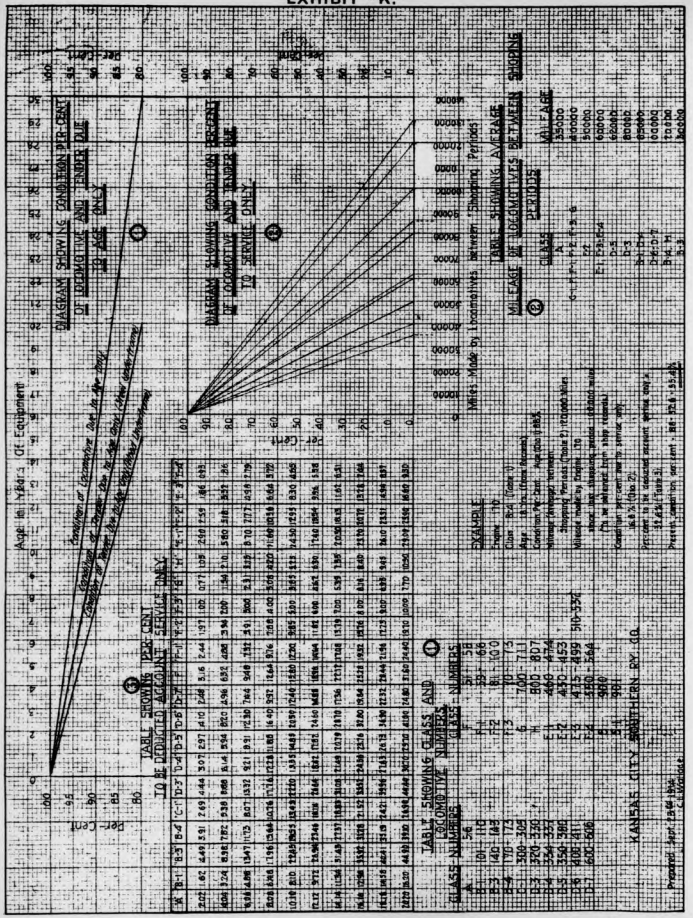

EXHIBIT "L."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY SOUTHERN RAILWAY COMPANY, TEXARKANA & FORT SMITH RAILWAY COMPANY, KANSAS CITY, SHREVEPORT & GULF RAILWAY COMPANY, MAYWOOD & SUGAR CREEK RAILWAY COMPANY AND FORT SMITH & VAN BUREN RAILWAY COMPANY.

AS OF DATE JUNE 30, 1914.

Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
ROAD.			
1. Engineering	$1,723,152.34	100.0000	$1,723,152.34
2. Land for transportation purposes	12,879,667.68	100.0000	12,879,667.68
3. Grading	12,719,026.32	100.0000	12,719,026.32
4. Underground power tubes			
5. Tunnels and subways			
6. Bridges, trestles and culverts	5,085,524.77	92.4652	4,702,338.90
7. Elevated structures			
8. Ties	2,960,171.55	69.7572	2,064,931.98
9. Rails	5,074,946.81	97.2993	4,937,886.10
10. Other track material	1,163,272.86	97.0980	1,129,514.65
11. Ballast	2,721,358.32	100.0000	2,721,358.32
12. Track-laying and surfacing	3,120,417.95	100.0000	3,120,417.95
13. Right-of-way fences	223,094.28	81.9506	182,827.08
14. Snow and sand fences and snowsheds			
15. Crossings and signs	343,114.16	89.6208	307,501.79
16. Station and office buildings	1,055,123.44	79.0560	834,137.85
17. Roadway buildings	169,580.51	80.5031	136,517.49
18. Water stations	575,138.29	88.7706	333,030.12
19. Fuel stations	189,689.96	90.7047	172,057.66
20. Shops and engine houses	1,159,749.75	87.7579	1,017,772.15
21. Grain elevators			
22. Storage warehouses			
23. Wharves and docks			
24. Coal and ore wharves			
25. Gas producing plants			
26. Telegraph and telephone lines	112,868.50	79.2493	89,447.51
27. Signals and interlockers	35,051.38	90.0119	31,550.40
28. Power dams, canals and pipe lines			
29. Power plant buildings			
30. Power substation buildings			
31. Power transmission systems			
32. Power distribution systems			
33. Power line poles and fixtures			
34. Underground conduits			
35. Miscellaneous structures			
36. Paving			
37. Roadway machines	33,689.98	75.0000	25,267.49
38. Roadway small tools	13,722.80	80.0000	10,978.24
39. Assessments for public improvements	306,340.61	100.0000	306,340.61
40. Revenues and operating expenses during construction			
41. Cost of road purchased			
42. Reconstruction of road purchased			
43. Other expenditures—road			
44. Shop machinery	710,040.77	80.6557	572,688.12
45. Power plant machinery	160,829.12	85.7925	143,126.79
46. Power substation apparatus			
47. Unapplied construction material and supplies			
TOTAL	$52,341,592.15	95.8349	$50,161,537.54
EQUIPMENT.			
51. Steam locomotives	$3,324,746.08	87.9507	$2,924,137.88
52. Other locomotives			
53. Freight train cars	4,822,735.68	67.4650	3,253,659.88
54. Passenger train cars	557,024.75	73.2021	407,754.08
55. Motor equipment of cars			
56. Floating equipment			
57. Work equipment	$14,315.04	57.3772	467,231.00
58. Miscellaneous equipment			
TOTAL	$9,518,821.55	74.0930	$7,052,782.84
GENERAL EXPENDITURES.			
71. Organization expenses	$4,049,995.60	100.0000	$4,049,995.60
72. General officers and clerks	741,680.36	100.0000	741,680.36
73. Law	332,369.11	100.0000	332,369.11
74. Stationery and printing	62,809.91	100.0000	62,809.91
75. Taxes	851,786.00	100.0000	851,786.00
76. Interest during construction	10,225,842.21	100.0000	10,225,842.21
77. Other expenditures—general	192,617.06	100.0000	192,617.06
TOTAL	$16,457,100.25	100.0000	$16,457,100.25
GRAND TOTAL	$78,317,513.95	94.0676	$73,671,420.63

INTENTIONAL SECOND EXPOSURE

EXHIBIT "K."

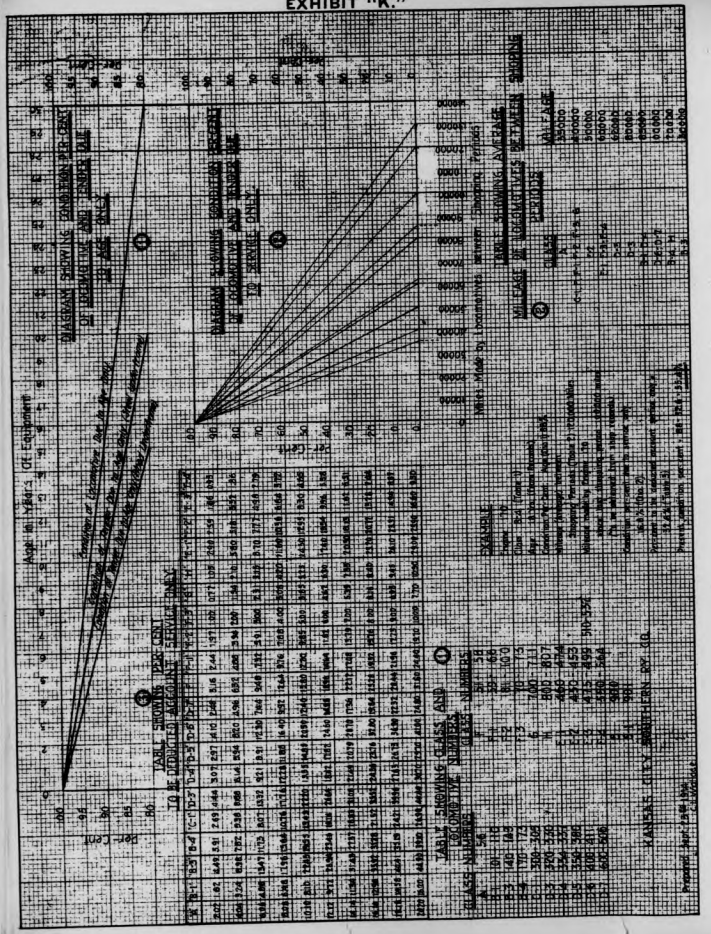

EXHIBIT "L."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY SOUTHERN RAILWAY COMPANY, TEXARKANA & FORT SMITH RAILWAY COMPANY, KANSAS CITY, SHREVEPORT & GULF RAILWAY COMPANY, MAYWOOD & SUGAR CREEK RAILWAY COMPANY AND FORT SMITH & VAN BUREN RAILWAY COMPANY.

AS OF DATE JUNE 30, 1914.

	Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
	ROAD.			
1.	Engineering	$1,723,152.34	100.0000	$1,723,152.34
2.	Land for transportation purposes	12,879,667.68	100.0000	12,879,667.68
3.	Grading	12,719,026.32	100.0000	12,719,026.32
4.	Underground power tubes			
5.	Tunnels and subways			
6.	Bridges, trestles and culverts	5,085,524.77	92.4652	4,702,338.90
7.	Elevated structures			
8.	Ties	2,960,171.55	69.7572	2,064,931.98
9.	Rails	5,074,946.81	97.2993	4,937,886.10
10.	Other track material	1,163,272.86	97.0980	1,129,514.65
11.	Ballast	2,721,358.32	100.0000	2,721,358.32
12.	Track-laying and surfacing	3,120,417.95	100.0000	3,120,417.95
13.	Right-of-way fences	223,094.28	81.9506	182,827.08
14.	Snow and sand fences and snowsheds			
15.	Crossings and signs	343,114.16	89.6208	307,501.79
16.	Station and office buildings	1,055,123.44	79.0560	834,137.85
17.	Roadway buildings	169,580.51	80.5031	136,517.49
18.	Water stations	375,158.29	88.7706	333,030.12
19.	Fuel stations	189,689.96	90.7047	172,057.66
20.	Shops and enginehouses	1,159,749.75	87.7579	1,017,772.15
21.	Grain elevators			
22.	Storage warehouses			
23.	Wharves and docks			
24.	Coal and ore wharves			
25.	Gas producing plants			
26.	Telegraph and telephone lines	112,868.50	79.2493	89,447.51
27.	Signals and interlockers	35,051.38	90.0119	31,550.40
28.	Power dams, canals and pipe lines			
29.	Power plant buildings			
30.	Power substation buildings			
31.	Power transmission systems			
32.	Power distribution systems			
33.	Power line poles and fixtures			
34.	Underground conduits			
35.	Miscellaneous structures			
36.	Paving			
37.	Roadway machines	33,689.98	75.0000	25,267.49
38.	Roadway small tools	13,722.80	80.0000	10,978.24
39.	Assessments for public improvements	306,340.61	100.0000	306,340.61
40.	Revenues and operating expenses during construction			
41.	Cost of road purchased			
42.	Reconstruction of road purchased			
43.	Other expenditures—road			
44.	Shop machinery	710,040.77	80.6557	572,688.12
45.	Power plant machinery	166,829.12	85.7925	143,126.79
46.	Power substation apparatus			
47.	Unapplied construction material and supplies			
	TOTAL	$52,341,592.15	95.8349	$50,161,537.54
	EQUIPMENT.			
51.	Steam locomotives	$3,324,746.08	87.9507	$2,924,137.88
52.	Other locomotives			
53.	Freight train cars	4,822,735.68	67.4650	3,253,659.88
54.	Passenger train cars	557,024.75	73.2021	407,754.08
55.	Motor equipment of cars			
56.	Floating equipment			
57.	Work equipment	814,315.04	57.3772	467,231.00
58.	Miscellaneous equipment			
	TOTAL	$9,518,821.55	74.0930	$7,052,782.84
	GENERAL EXPENDITURES.			
71.	Organization expenses	$4,049,995.60	100.0000	$4,049,995.60
72.	General officers and clerks	741,680.36	100.0000	741,680.36
73.	Law	332,369.11	100.0000	332,369.11
74.	Stationery and printing	62,809.91	100.0000	62,809.91
75.	Taxes	851,786.00	100.0000	851,786.00
76.	Interest during construction	10,225,842.21	100.0000	10,225,842.21
77.	Other expenditures—general	192,617.06	100.0000	192,617.06
	TOTAL	$16,457,100.25	100.0000	$16,457,100.25
	GRAND TOTAL	$78,317,513.95	94.0676	$73,671,420.63

EXHIBIT "M."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY, SHREVEPORT & GULF TERMINAL COMPANY.

AS OF DATE JUNE 30, 1914.

	Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
	ROAD.			
1.	Engineering	$5,998.45	100.0000	$5,998.45
2.	Land for transportation purposes	109,540.70	100.0000	109,540.70
3.	Grading	12,553.43	100.0000	12,553.43
4.	Underground power tubes			
5.	Tunnels and subways			
6.	Bridges, trestles and culverts	4,689.16	70.0000	3,282.41
7.	Elevated structures			
8.	Ties	3,816.65	87.6450	3,345.10
9.	Rails	3,550.01	95.3500	3,384.93
10.	Other track material	3,071.23	95.3500	2,928.41
11.	Ballast	2,694.17	100.0000	2,694.17
12.	Track-laying and surfacing	2,507.99	100.0000	2,507.99
13.	Right-of-way fences			
14.	Snow and sand fences and snowsheds			
15.	Crossings and signs	1,187.00	100.0000	1,187.00
16.	Station and office buildings	84,046.73	82.7121	69,516.80
17.	Roadway buildings			
18.	Water stations			
19.	Fuel stations			
20.	Shops and enginehouses			
21.	Grain elevators			
22.	Storage warehouses			
23.	Wharves and docks			
24.	Coal and ore wharves			
25.	Gas producing plants			
26.	Telegraph and telephone lines			
27.	Signals and interlockers			
28.	Power dams, canals and pipe lines			
29.	Power plant buildings			
30.	Power substation buildings			
31.	Power transmission systems			
32.	Power distribution systems			
33.	Power line poles and fixtures			
34.	Underground conduits			
35.	Miscellaneous structures			
36.	Paving			
37.	Roadway machines			
38.	Roadway small tools			
39.	Assessments for public improvements	13,113.92	100.0000	13,113.92
40.	Revenues and operating expenses during construction			
41.	Cost of road purchased			
42.	Reconstruction of road purchased			
43.	Other expenditures—road			
44.	Shop machinery	141.77	87.0000	123.34
45.	Power plant machinery			
46.	Power substation apparatus			
47.	Unapplied construction material and supplies			
	TOTAL	$246,911.21	93.2224	$230,176.65
	EQUIPMENT.			
51.	Steam locomotives			
52.	Other locomotives			
53.	Freight train cars			
54.	Passenger train cars			
55.	Motor equipment of cars			
56.	Floating equipment			
57.	Work equipment			
58.	Miscellaneous equipment			
	TOTAL			
	GENERAL EXPENDITURES.			
71.	Organization expenses	$16,011.28	100.0000	$16,011.28
72.	General officers and clerks	3,498.73	100.0000	3,498.73
73.	Law	1,567.89	100.0000	1,567.89
74.	Stationery and printing	296.29	100.0000	296.29
75.	Taxes			
76.	Interest during construction	16,151.64	100.0000	16,151.64
77.	Other expenditures—general	908.63	100.0000	908.63
	TOTAL	$38,434.46	100.0000	$38,434.46
	GRAND TOTAL	$285,345.67	94.1353	$268,611.11

EXHIBIT "N."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE ARKANSAS WESTERN RAILWAY.

AS OF DATE JUNE 30, 1914.

	Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
	ROAD.			
1.	Engineering	$16,383.25	100.0000	$16,383.25
2.	Land for transportation purposes	21,348.46	100.0000	21,348.46
3.	Grading	88,864.39	100.0000	88,864.39
4.	Underground power tubes			
5.	Tunnels and subways			
6.	Bridges, trestles and culverts	28,072.50	85.2786	23,939.82
7.	Elevated structures			
8.	Ties	58,694.24	59.2706	34,788.41
9.	Rails	96,431.29	94.0973	90,739.23
10.	Other track material	19,681.64	94.0968	18,519.75
11.	Ballast	172.74	100.0000	172.74
12.	Track-laying and surfacing	48,062.45	100.0000	48,062.45
13.	Right-of-way fences	4,717.20	82.0000	3,868.11
14.	Snow and sand fences and snowsheds			
15.	Crossings and signs	1,751.98	83.5801	1,464.32
16.	Station and office buildings	7,813.95	74.2915	5,805.10
17.	Roadway buildings	1,165.27	72.3760	843.38
18.	Water stations	924.51	50.0000	462.26
19.	Fuel stations			
20.	Shops and enginehouses	189.29	60.0000	113.57
21.	Grain elevators			
22.	Storage warehouses			
23.	Wharves and docks			
24.	Coal and ore wharves			
25.	Gas producing plants			
26.	Telegraph and telephone lines	1,836.85	75.0000	1,377.64
27.	Signals and interlockers			
28.	Power dams, canals and pipe lines			
29.	Power plant buildings			
30.	Power substation buildings			
31.	Power transmission systems			
32.	Power distribution systems			
33.	Power line poles and fixtures			
34.	Underground conduits			
35.	Miscellaneous structures			
36.	Paving			
37.	Roadway machines	237.81	75.0000	178.36
38.	Roadway small tools	193.67	80.0000	154.94
39.	Assessments for public improvements			
40.	Revenues and operating expenses during construction			
41.	Cost of road purchased			
42.	Reconstruction of road purchased			
43.	Other expenditures—road			
44.	Shop machinery			
45.	Power plant machinery			
46.	Power substation apparatus			
47.	Unapplied construction material and supplies			
	TOTAL	$396,541.49	90.0501	$357,086.18
	EQUIPMENT.			
51.	Steam locomotives			
52.	Other locomotives			
53.	Freight train cars			
54.	Passenger train cars			
55.	Motor equipment of cars			
56.	Floating equipment			
57.	Work equipment	$626.64	35.0000	$219.32
58.	Miscellaneous equipment			
	TOTAL	$626.64	35.0000	$219.32
	GENERAL EXPENDITURES.			
71.	Organization expenses	$25,753.88	100.0000	$25,753.88
72.	General officers and clerks	5,618.99	100.0000	5,618.99
73.	Law	2,518.04	100.0000	2,518.04
74.	Stationery and printing	475.85	100.0000	475.85
75.	Taxes			
76.	Interest during construction	25,979.65	100.0000	25,979.65
77.	Other expenditures—general	1,459.27	100.0000	1,459.27
	TOTAL	$61,805.68	100.0000	$61,805.68
	GRAND TOTAL	$458,973.81	91.3149	$419,111.18

EXHIBIT "O."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE POTEAU VALLEY RAILROAD.

AS OF DATE JUNE 30, 1914.

	Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
	ROAD.			
1.	Engineering	$4,213.04	100.0000	$4,213.04
2.	Land for transportation purposes	4,488.13	100.0000	4,488.13
3.	Grading	35,575.75	100.0000	35,575.75
4.	Underground power tubes			
5.	Tunnels and subways			
6.	Bridges, trestles and culverts	5,396.00	78.8000	4,252.05
7.	Elevated structures			
8.	Ties	12,219.04	58.0089	7,088.13
9.	Rails	18,952.49	97.7271	18,521.70
10.	Other track material	4,611.77	97.7271	4,506.94
11.	Ballast	497.38	100.0000	497.38
12.	Track-laying and surfacing	11,207.89	100.0000	11,207.89
13.	Right-of-way fences	736.06	82.0000	603.57
14.	Snow and sand fences and snowsheds			
15.	Crossings and signs	204.23	83.2500	170.01
16.	Station and office buildings	1,365.31	84.5250	1,154.02
17.	Roadway buildings	84.14	75.0000	63.11
18.	Water stations			
19.	Fuel stations			
20.	Shops and enginehouses	917.51	57.0000	522.98
21.	Grain elevators			
22.	Storage warehouses			
23.	Wharves and docks			
24.	Coal and ore wharves			
25.	Gas producing plants			
26.	Telegraph and telephone lines	343.07	75.0000	257.30
27.	Signals and interlockers			
28.	Power dams, canals and pipe lines			
29.	Power plant buildings			
30.	Power substation buildings			
31.	Power transmission systems			
32.	Power distribution systems			
33.	Power line poles and fixtures			
34.	Underground conduits			
35.	Miscellaneous structures			
36.	Paving			
37.	Roadway machines	51.76	75.0000	38.82
38.	Roadway small tools	54.16	80.0000	43.33
39.	Assessments for public improvements			
40.	Revenues and operating expenses during construction			
41.	Cost of road purchased			
42.	Reconstruction of road purchased			
43.	Other expenditures—road			
44.	Shop machinery	53.32	85.0000	45.32
45.	Power plant machinery			
46.	Power substation apparatus			
47.	Unapplied construction material and supplies			
	TOTAL	$100,971.05	92.3526	$93,249.47
	EQUIPMENT.			
51.	Steam locomotives	$12,632.07	72.9200	$9,211.31
52.	Other locomotives			
53.	Freight train cars			
54.	Passenger train cars	4,706.35	47.6000	2,240.25
55.	Motor equipment of cars			
56.	Floating equipment			
57.	Work equipment			
58.	Miscellaneous equipment			
	TOTAL	$17,338.42	66.0473	$11,451.56
	GENERAL EXPENDITURES.			
71.	Organization expenses	$7,644.08	100.0000	$7,644.08
72.	General officers and clerks	1,430.76	100.0000	1,430.76
73.	Law	641.17	100.0000	641.17
74.	Stationery and printing	121.17	100.0000	121.17
75.	Taxes			
76.	Interest during construction	7,711.09	100.0000	7,711.09
77.	Other expenditures—general	371.57	100.0000	371.57
	TOTAL	$17,919.84	100.0000	$17,919.84
	GRAND TOTAL	$136,229.31	90.0106	$122,620.87

EXHIBIT "P."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE PORT ARTHUR CANAL AND DOCK COMPANY.

AS OF DATE JUNE 30, 1914.

	Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
	ROAD.			
1.	Engineering	$56,418.15	100.0000	$56,418.15
2.	Land for transportation purposes	3,696,055.15	100.0000	3,696,055.15
3.	Grading	17,149.33	100.0000	17,149.33
4.	Underground power tubes			
5.	Tunnels and subways			
6.	Bridges, trestles and culverts	20,680.54	90.0000	18,612.49
7.	Elevated structures			
8.	Ties	10,097.73	88.1229	8,898.40
9.	Rails	9,152.13	95.3900	8,730.22
10.	Other track material	5,136.87	95.3900	4,900.06
11.	Ballast	7,744.94	100.0000	7,744.94
12.	Track-laying and surfacing	6,290.84	100.0000	6,290.84
13.	Right-of-way fences			
14.	Snow and sand fences and snowsheds			
15.	Crossings and signs			
16.	Station and office buildings	379,292.56	92.4584	350,687.81
17.	Roadway buildings			
18.	Water stations			
19.	Fuel stations			
20.	Shops and enginehouses			
21.	Grain elevators	202,637.73	83.0000	168,189.32
22.	Storage warehouses			
23.	Wharves and docks	577,431.55	91.2550	526,935.16
24.	Coal and ore wharves			
25.	Gas producing plants			
26.	Telegraph and telephone lines			
27.	Signals and interlockers			
28.	Power dams, canals and pipe lines			
29.	Power plant buildings			
30.	Power substation buildings			
31.	Power transmission systems			
32.	Power distribution systems			
33.	Power line poles and fixtures			
34.	Underground conduits			
35.	Miscellaneous structures			
36.	Paving			
37.	Roadway machines			
38.	Roadway small tools			
39.	Assessments for public improvements			
40.	Revenues and operating expenses during construction			
41.	Cost of road purchased			
42.	Reconstruction of road purchased			
43.	Other expenditures—road			
44.	Shop machinery			
45.	Power plant machinery			
46.	Power substation apparatus			
47.	Unapplied construction material and supplies			
	TOTAL	$4,988,087.52	97.6449	$4,870,611.87
	EQUIPMENT.			
51.	Steam locomotives			
52.	Other locomotives			
53.	Freight train cars			
54.	Passenger train cars			
55.	Motor equipment of cars			
56.	Floating equipment			
57.	Work equipment			
58.	Miscellaneous equipment			
	TOTAL			
	GENERAL EXPENDITURES.			
71.	Organization expenses	$323,860.57	100.0000	$323,860.57
72.	General officers and clerks	70,681.20	100.0000	70,681.20
73.	Law	31,674.36	100.0000	31,674.36
74.	Stationery and printing	5,985.70	100.0000	5,985.70
75.	Taxes	6,250.00	100.0000	6,250.00
76.	Interest during construction	490,049.60	100.0000	490,049.60
77.	Other expenditures—general	18,356.16	100.0000	18,356.16
	TOTAL	$946,857.59	100.0000	$946,857.59
	GRAND TOTAL	$5,934,945.11	98.0206	$5,817,469.46

EXHIBIT "Q."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE K. C. S. ELEVATOR COMPANY.

AS OF DATE JUNE 30, 1914.

	Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
	ROAD.			
1.	Engineering			
2.	Land for transportation purposes			
3.	Grading			
4.	Underground power tubes			
5.	Tunnels and subways			
6.	Bridges, trestles and culverts			
7.	Elevated structures			
8.	Ties			
9.	Rails			
10.	Other track material			
11.	Ballast			
12.	Track-laying and surfacing			
13.	Right-of-way fences			
14.	Snow and sand fences and snowsheds			
15.	Crossings and signs			
16.	Station and office buildings			
17.	Roadway buildings			
18.	Water stations			
19.	Fuel stations			
20.	Shops and enginehouses			
21.	Grain elevators	$187,321.70	76.0000	$142,364.49
22.	Storage warehouses			
23.	Wharves and docks			
24.	Coal and ore wharves			
25.	Gas producing plants			
26.	Telegraph and telephone lines			
27.	Signals and interlockers			
28.	Power dams, canals and pipe lines			
29.	Power plant buildings			
30.	Power substation buildings			
31.	Power transmission systems			
32.	Power distribution systems			
33.	Power line poles and fixtures			
34.	Underground conduits			
35.	Miscellaneous structures			
36.	Paving			
37.	Roadway machines			
38.	Roadway small tools			
39.	Assessments for public improvements			
40.	Revenues and operating expenses during construction			
41.	Cost of road purchased			
42.	Reconstruction of road purchased			
43.	Other expenditures—road			
44.	Shop machinery			
45.	Power plant machinery			
46.	Power substation apparatus			
47.	Unapplied construction material and supplies			
	TOTAL	$187,321.70	76.0000	$142,364.49
	EQUIPMENT.			
51.	Steam locomotives			
52.	Other locomotives			
53.	Freight train cars			
54.	Passenger train cars			
55.	Motor equipment of cars			
56.	Floating equipment			
57.	Work equipment			
58.	Miscellaneous equipment			
	TOTAL			
	GENERAL EXPENDITURES.			
71.	Organization expenses	$12,147.12	100.0000	$12,147.12
72.	General officers and clerks	2,654.35	100.0000	2,654.35
73.	Law	1,189.49	100.0000	1,189.49
74.	Stationery and printing	224.79	100.0000	224.79
75.	Taxes			
76.	Interest during construction	12,353.61	100.0000	12,353.61
77.	Other expenditures—general	689.34	100.0000	689.34
	TOTAL	$29,158.70	100.0000	$29,158.70
	GRAND TOTAL	$216,480.40	79.2327	$171,523.19

EXHIBIT "R."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE GLENN-POOL TANK LINE COMPANY.

AS OF DATE JUNE 30, 1914.

	Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
	ROAD.			
1.	Engineering			
2.	Land for transportation purposes			
3.	Grading			
4.	Underground power tubes			
5.	Tunnels and subways			
6.	Bridges, trestles and culverts			
7.	Elevated structures			
8.	Ties			
9.	Rails			
10.	Other track material			
11.	Ballast			
12.	Track-laying and surfacing			
13.	Right-of-way fences			
14.	Snow and sand fences and snowsheds			
15.	Crossings and signs			
16.	Station and office buildings			
17.	Roadway buildings			
18.	Water stations			
19.	Fuel stations			
20.	Shops and enginehouses			
21.	Grain elevators			
22.	Storage warehouses			
23.	Wharves and docks			
24.	Coal and ore wharves			
25.	Gas producing plants			
26.	Telegraph and telephone lines			
27.	Signals and interlockers			
28.	Power dams, canals and pipe lines			
29.	Power plant buildings			
30.	Power substation buildings			
31.	Power transmission systems			
32.	Power distribution systems			
33.	Power line poles and fixtures			
34.	Underground conduits			
35.	Miscellaneous structures			
36.	Paving			
37.	Roadway machines			
38.	Roadway small tools			
39.	Assessments for public improvements			
40.	Revenues and operating expenses during construction			
41.	Cost of road purchased			
42.	Reconstruction of road purchased			
43.	Other expenditures—road			
44.	Shop machinery			
45.	Power plant machinery			
46.	Power substation apparatus			
47.	Unapplied construction material and supplies			
	TOTAL			
	EQUIPMENT.			
51.	Steam locomotives			
52.	Other locomotives			
53.	Freight train cars	$127,706.29	87.5000	$111,743.00
54.	Passenger train cars			
55.	Motor equipment of cars			
56.	Floating equipment			
57.	Work equipment			
58.	Miscellaneous equipment			
	TOTAL	$127,706.29	87.5000	$111,743.00
	GENERAL EXPENDITURES.			
71.	Organization expenses	$8,281.28	100.0000	$8,281.28
72.	General officers and clerks	1,809.60	100.0000	1,809.60
73.	Law	$10.93	100.0000	$10.93
74.	Stationery and printing	153.25	100.0000	153.25
75.	Taxes			
76.	Interest during construction	8,353.88	100.0000	8,353.88
77.	Other expenditures—general	469.96	100.0000	469.96
	TOTAL	$19,878.90	100.0000	$19,878.90
	GRAND TOTAL	$147,585.19	89.1836	$131,621.90

EXHIBIT "S."

WEIGHTED CONDITION PER CENT.

TENTATIVE STATEMENT OF WEIGHTED CONDITION PER CENT. OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY SOUTHERN RAILWAY COMPANY AND OF ITS SUBSIDIARY AND PROPRIETARY COMPANIES.

AS OF DATE JUNE 30, 1914.

Account	Cost of Reproduction New	Weighted Condition Per Cent.	Weighted Condition Per Cent. Applied to Cost of Reproduction New
ROAD.			
1. Engineering	$1,806,165.23	100.0000	$1,806,165.23
2. Land for transportation purposes	16,711,100.12	100.0000	16,711,100.12
3. Grading	12,873,169.22	100.0000	12,873,169.22
4. Underground power tubes			
5. Tunnels and subways			
6. Bridges, trestles and culverts	5,144,362.97	92.3812	4,752,425.67
7. Elevated structures			
8. Ties	3,044,999.21	69.5912	2,119,052.02
9. Rails	5,203,032.73	97.2368	5,059,262.18
10. Other track material	1,195,774.37	97.0392	1,160,369.81
11. Ballast	2,732,467.55	100.0000	2,732,467.55
12. Track-laying and surfacing	3,188,487.12	100.0000	3,188,487.12
13. Right-of-way fences	228,547.54	81.9518	187,298.76
14. Snow and sand fences and snowsheds			
15. Crossings and signs	346,257.37	89.6221	310,323.12
16. Station and office buildings	1,527,641.99	82.5653	1,261,301.58
17. Roadway buildings	170,829.92	80.4449	137,423.98
18. Water stations	376,082.80	88.6753	333,492.38
19. Fuel stations	189,689.96	90.7047	172,057.66
20. Shops and enginehouses	1,160,856.55	87.7291	1,018,408.70
21. Grain elevators	389,959.43	79.6375	310,553.81
22. Storage warehouses			
23. Wharves and docks	577,431.55	91.2550	526,935.16
24. Coal and ore wharves			
25. Gas producing plants			
26. Telegraph and telephone lines	115,048.42	79.1688	91,082.45
27. Signals and interlockers	35,051.38	90.0119	31,550.40
28. Power dams, canals and pipe lines			
29. Power plant buildings			
30. Power substation buildings			
31. Power transmission systems			
32. Power distribution systems			
33. Power line poles and fixtures			
34. Underground conduits			
35. Miscellaneous structures			
36. Paving			
37. Roadway machines	33,979.55	75.0000	25,484.67
38. Roadway small tools	13,970.63	80.0000	11,176.51
39. Assessments for public improvements	319,454.53	100.0000	319,454.53
40. Revenues and operating expenses during construction			
41. Cost of road purchased			
42. Reconstruction of road purchased			
43. Other expenditures—road			
44. Shop machinery	710,235.86	80.6573	572,856.78
45. Power plant machinery	166,829.12	85.7925	143,126.79
46. Power substation apparatus			
47. Unapplied construction material and supplies			
TOTAL	$58,261,425.12	95.8697	$55,855,026.20
EQUIPMENT.			
51. Steam locomotives	$3,337,378.15	87.8038	$2,933,349.19
52. Other locomotives			
53. Freight train cars	4,950,441.97	67.9819	3,365,402.88
54. Passenger train cars	561,731.10	74.9459	409,994.33
55. Motor equipment of cars			
56. Floating equipment			
57. Work equipment	814,941.68	57.3600	467,450.32
58. Miscellaneous equipment			
TOTAL	$9,664,492.90	74.2532	$7,176,196.72
GENERAL EXPENDITURES.			
71. Organization expenses	$4,443,693.81	100.0000	$4,443,693.81
72. General officers and clerks	827,373.99	100.0000	827,373.99
73. Law	370,770.99	100.0000	370,770.99
74. Stationery and printing	70,066.96	100.0000	70,066.96
75. Taxes	858,036.00	100.0000	858,036.00
76. Interest during construction	10,786,341.68	100.0000	10,786,341.68
77. Other expenditures—general	214,871.99	100.0000	214,871.99
TOTAL	$17,571,155.42	100.0000	$17,571,155.42
GRAND TOTAL	$85,497,073.44	94.2750	$80,602,378.34

EXHIBIT "T."

COST OF REPRODUCTION LESS DEPRECIATION.

TENTATIVE STATEMENT OF COST OF REPRODUCTION LESS DEPRECIATION OF THE PHYSICAL PROPERTY OWNED OR USED FOR PURPOSES OF A COMMON CARRIER BY THE KANSAS CITY SOUTHERN RAILWAY COMPANY AND ITS SUBSIDIARY AND PROPRIETARY COMPANIES.

AS OF DATE JUNE 30, 1914.

Account	The Kansas City Southern Ry., Texarkana & Fort Smith Ry., Kansas City, Shreveport & Gulf Ry., Maywood & Sugar Creek Ry., Fort Smith & Van Buren Ry.	The Kansas City, Shreveport & Gulf Terminal	The Arkansas Western Ry.	The Poteau Valley Railroad	Port Arthur Canal and Dock	The K. C. S. Elevator	Glenn-Pool Tank Line (The K. C. S. Ry. ownership 75 per cent.)	Total All Companies
ROAD.								
1. Engineering	$1,723,152.34	$5,998.45	$16,383.25	$4,213.04	$56,418.15			$1,806,165.23
2. Land for transportation purposes	12,879,667.68	109,540.70	21,348.46	4,488.13	3,606,055.15			16,711,100.12
3. Grading	12,719,026.32	12,553.43	88,864.39	35,575.75	17,149.33			12,873,169.22
4. Underground power tubes								
5. Tunnels and subways								
6. Bridges, trestles and culverts	4,702,338.90	3,282.41	23,939.82	4,252.05	18,612.49			4,752,425.67
7. Elevated structures								
8. Ties	2,064,931.98	3,345.10	34,788.41	7,088.13	8,898.40			2,119,052.02
9. Rails	4,937,886.10	3,384.93	90,739.23	18,521.70	8,730.22			5,059,262.18
10. Other track material	1,129,514.65	2,928.41	18,519.75	4,506.94	4,900.03			1,160,369.81
11. Ballast	2,721,358.32	2,694.17	172.74	497.38	7,744.94			2,732,467.55
12. Track-laying and surfacing	3,120,417.95	2,507.99	48,062.45	11,207.89	6,290.84			3,188,487.12
13. Right-of-way fences	182,827.08		3,868.11	603.57				187,298.76
14. Snow and sand fences and snowsheds								
15. Crossings and signs	307,501.79	1,187.00	1,464.32	170.01				310,323.12
16. Station and office buildings	834,137.85	69,516.80	5,805.10	1,154.02	350,687.81			1,261,301.58
17. Roadway buildings	136,517.49		843.38	63.11				137,423.98
18. Water stations	333,030.12		462.26					333,492.38
19. Fuel stations	172,057.66							172,057.66
20. Shops and enginehouses	1,017,772.15		113.57	522.98				1,018,408.70
21. Grain elevators					168,189.32	$142,364.49		310,553.81
22. Storage warehouses								
23. Wharves and docks					526,935.16			526,935.16
24. Coal and ore wharves								
25. Gas producing plants								
26. Telegraph and telephone lines	89,447.51		1,377.64	257.30				91,082.45
27. Signals and interlockers	31,550.40							31,550.40
28. Power dams, canals and pipe lines								
29. Power plant buildings								
30. Power substation buildings								
31. Power transmission systems								
32. Power distribution systems								
33. Power line poles and fixtures								
34. Underground conduits								
35. Miscellaneous structures								
36. Paving								
37. Roadway machines	25,267.49		178.36	38.82				25,484.67
38. Roadway small tools	10,978.24		154.94	43.33				11,176.51
39. Assessments for public improvements	306,340.61	13,113.92						319,454.53
40. Revenues and operating expenses during construction								
41. Cost of road purchased								
42. Reconstruction of road purchased								
43. Other expenditures—road								
44. Shop machinery	572,688.12	123.34		45.32				572,856.78
45. Power plant machinery	143,126.79							143,126.79
46. Power substation apparatus								
47. Unapplied construction material and supplies								
TOTAL	$50,161,537.54	$230,176.65	$357,086.18	$93,249.47	$4,870,611.87	$142,364.49		$55,855,026.20
EQUIPMENT.								
51. Steam locomotives	$2,924,137.88			$9,211.31				$2,933,349.19
52. Other locomotives								
53. Freight train cars	3,253,659.88						$111,743.00	3,365,402.88
54. Passenger train cars	407,754.08			2,240.25				409,994.33
55. Motor equipment of cars								
56. Floating equipment								
57. Work equipment	467,231.00		$219.32					467,450.32
58. Miscellaneous equipment								
TOTAL	$7,052,782.84		$219.32	$11,451.56			$111,743.00	$7,176,196.72
GENERAL EXPENDITURES.								
71. Organization expenses	$4,049,995.60	$16,011.28	$25,753.88	$7,644.08	$323,860.57	$12,147.12	$8,281.28	$4,443,693.81
72. General officers and clerks	741,680.36	3,498.73	5,618.99	1,430.76	70,681.20	2,654.35	1,809.60	827,373.99
73. Law	332,369.11	1,567.89	2,518.04	641.17	31,674.36	1,189.49	810.93	370,770.99
74. Stationery and printing	62,809.91	296.29	475.85	121.17	5,985.70	224.79	153.25	70,066.96
75. Taxes	851,786.00				6,250.00			858,036.00
76. Interest during construction	10,225,842.21	16,151.64	25,979.65	7,711.09	490,049.60	12,253.61	8,353.88	10,786,341.68
77. Other expenditures—general	192,617.06	908.63	1,459.27	371.57	18,356.16	689.34	469.96	214,871.99
TOTAL	$16,457,100.25	$38,434.46	$61,805.68	$17,919.84	$946,857.59	$29,158.70	$19,878.90	$17,571,155.42
GRAND TOTAL	$73,671,420.63	$268,611.11	$419,111.18	$122,620.87	$5,817,469.46	$171,523.19	$131,621.90	$80,602,378.34

EXHIBIT "U."

OTHER VALUES AND ELEMENTS OF VALUE.

STATEMENT OF "OTHER VALUES AND ELEMENTS OF VALUE" APPERTAINING TO THE KANSAS CITY SOUTHERN RAILWAY SYSTEM AND OF ITS PROPRIETARY AND SUBSIDIARY COMPANIES AS OF DATE JUNE 30, 1914.

THE KANSAS CITY SOUTHERN RAILWAY SYSTEM.

OTHER ITEMS OF COST.

WORKING CAPITAL:

Being net funds necessary for the proper conduct of business as of date June 30, 1914:

Current assets	$4,858,356.38	
Current liabilities	2,999,232.65	
Net working capital		$1,859,123.73

REORGANIZATION EXPENSES:

Being the expense of reorganization of the Kansas City, Pittsburg & Gulf Railroad Company, the Kansas City Suburban Belt Railroad Company and the Port Arthur Channel and Dock Company.

This expense includes all expenses of the receiverships, all expenses incurred in securing co-operation of security holders, all expenses of litigation and settlement of claims against the properties and numerous other expenses incident to liquidation as follows:

Receivers' services	$31,333.33	
Reorganization expenses	2,230,450.36	
Claims allowed	819,687.08	
Litigation	199,753.84	
		3,281,224.61

INVESTMENTS IN TERMINAL COMPANIES:

Being the investment in the Kansas City Terminal Railway Company and the Joplin Union Depot Company properties:

Kansas City Terminal Railway Company, one-twelfth interest	$100,000.00	
Joplin Union Depot Company, one-fourth interest	10,000.00	
		110,000.00

PROPERTY ABANDONED:

Being the unrecovered losses sustained by reason of original cost of property abandoned in the course of improvements to June 30, 1914.

Charges to surplus	$1,168,213.06	
Pending disposition	1,102,026.97	
		2,270,240.03

EXHIBIT "U"—Continued.

FAIRMOUNT PARK:

Being the value of an amusement park established in 1892 near Independence, Mo., and operated until 1902, at which time it was abandoned:

Total cost	$204,560.53	
Less salvage	5,465.75	
		$199,094 78

MENA LAND AND IMPROVEMENT COMPANY:

Being cost of property purchased from employes residing at Mena, Ark., during 1909, at which time it was necessary to establish new facilities at Heavener, Okla., and De Queen, Ark., in order to comply with the 16-hour law:

Cost of property	$120,540.53	
Working capital	8,662.18	
		129,202 71

DEFICIT FROM OPERATION:

Being total net return in deficit of a fair return upon the initial investment cost less interest paid on funds for the investment from the date the cost was incurred to date of valuation, less total net returns to that date.

Minimum fair return on basis of six per cent. per annum	$36,361,411.15	
Less amount of net return	36,209,201.63	
		152,209.52

Fair return on accrued deficit from operation:

Being six per cent. per annum payable annually on the deficit for each year from the date of accrual to date of valuation 6,590,617.12

Fair return on aids, gifts, grants and donations:

Being six per cent. per annum payable annually on the value of aids, gifts, grants and donations held or used for transportation purposes.

Value of aids, gifts, grants and donations as shown on Exhibit "B"	$1,199,585.67	
Interest on same from date of investment until June 30, 1914		1,908,271.31

Fair return on working capital:

Being six per cent. per annum payable annually on amount of working capital as shown by the books at the beginning of each year from the beginning of operation to June 30, 1914 ..... 1,986,521.13

EXHIBIT "U"—Continued.

Fair return on reorganization expenses:		
Being six per cent. per annum payable annually upon reorganization expenses from the date the expense was incurred to June 30, 1914		$3,901,567.89
Fair return on property abandoned:		
Being six per cent. per annum payable annually on original cost of property abandoned from the date of abandonment to June 30, 1914		921,023.58
Fair return on investment in terminal companies:		
Being six per cent. payable annually on amounts invested in Kansas City and Joplin terminals from date of investment to June 30, 1914		37,204.82
Fair return on Fairmount Park:		
Being six per cent. per annum payable annually from date of investment to June 30, 1914		203,286.93
Fair return on Mena Land and Improvement property:		
Being six per cent. per annum payable annually on net cost of this property from date of investment to date of valuation.		
Fair return on investment	$51,541.34	
Fair return on working capital	2,672.79	
		54,214.13

OTHER ELEMENTS OF VALUE.

VALUES DUE TO IMPROVED PHYSICAL CONDITION RESULTING FROM NATURAL CAUSES.

Adaptation and solidification:		
Being estimated on basis of 10 cents per cubic yard of embankment as cost of compacting by artificial means: 22,692,400 cubic yards at 10 cents per cubic yard		2,269,240.00

VALUES DUE TO CO-ORDINATION AND CO-OPERATION OF DIFFERENT PROPERTIES.

UNDIVIDED INTEREST IN TERMINAL COMPANIES:

Being The Kansas City Southern Railway Company's undivided interest in the following terminal companies:		
The Kansas City Terminal Railway Company	$3,290,595.69	
The Joplin Union Depot Company	178,425.79	
	$3,469,021.48	
Less amount included in investment in terminal companies	110,000.00	
		3,359,021.48

EXHIBIT "U"—Continued.

ELEMENTS OF ECONOMIC VALUE.

INTERCHANGE OF CARS WITH CONNECTIONS:

Saving of expense of transfer from car to car, freight delivered to connecting carriers:			
80,525 cars at $3		$241,575.00	
Saving of a six per cent. return on $722,000 less investment required for equipment		43,320.00	
Saving in interest on commercial capital made available by expedition by traffic		18,610.62	
Saving of expense of switching in connection with freight received from connecting lines:			
63,731 cars at $1.50 each		95,596.50	
Saving of annual expense of maintenance and renewals of cars:			
722 cars at $100 each		72,200.00	
Total benefits resulting from interchange of cars with connections during the year ended June 30, 1914		$471,302.12	
This amount capitalized at six per cent. represents a value of			$7,855,035.33

USE OF PROPERTY JOINTLY OWNED WITH OTHER CARRIERS:

Being the following jointly owned facilities:			
Coal Creek, Okla., station jointly owned with Ft. Smith & Western Railway Company:			
Net saving per year of fixed charges	$102.53		
Net saving per year of maintaining and operating	934.71		
Net saving	$1,037.24		
This amount capitalized at six per cent. represents a value of		$17,287.33	
Panama, Okla., station jointly owned with Midland Valley Railway:			
Net saving per year of fixed charges	$53.95		
Net saving per year of maintaining and operating	845.93		
Net saving	$899.88		
This amount capitalized at six per cent. represents a value of		14,998.00	
Howe, Okla., station being jointly owned with Chicago, Rock Island & Pacific Railway:			
Net saving per year of fixed charges	$72.90		
Net saving per year of maintaining and operating	1,573.20		
Net saving	$1,646.10		
This amount capitalized at six per cent. represents a value of		27,435.00	59,720.33

EXHIBIT "U"—Continued.

JOINT USE OF FACILITIES OF OTHER CARRIERS:		
Being the value attached to the joint use of 11 miles of track between Belt Junction, Mo., and Grandview, Mo.:		
Estimated cost of reproduction new	$462,880.40	
Estimated saving in cost of maintenance at $100 per mile per year	$11,000.00	
This amount capitalized at six per cent. represents a value of	183,333.33	
		$646,213.73
FAIR RETURN ON OTHER ELEMENTS OF VALUE:		
Fair return on adaptation and solidification:		
Being six per cent. per annum payable annually calculated by the straight-line theory of appreciation from date of accrual to date of valuation		1,722,707.15
Fair return on undivided interest in terminal companies:		
Being six per cent. per annum payable annually upon the undivided interest of the Kansas City Southern Railway Company in the property of the Kansas City Terminal Railway Company and of the Joplin Union Depot Company from the date those interests were acquired to date of valuation		742,354.17
FAIR RETURN ON INCREASES DUE TO INCREASED PRICES OF LAND, LABOR AND MATERIALS:		
Being the fair return on increased prices of land, labor and materials, calculated by the straight-line theory of appreciation of six per cent. per annum, payable annually from date of accrual to date of valuation:		
Cost of reproduction new, as per "Exhibit J"	$61,860,413.70	
Less original cost to date, as per "Exhibit I"	48,618,948.50	
	$13,241,465.20	
Fair return		10,051,738.16

EXHIBIT "U"—Continued.

VALUES DUE TO CO-ORDINATION OF PROPERTIES SITUATED IN DIFFERENT STATES:		
Uninterrupted passage of freight traffic across State lines:		
Saving of expense of switching in connection with through movement of cars:		
516,872 cars at $1.50 each	$775,308.00	
Saving of a fair return on $4,630,000, less investment required for equipment	277,800.00	
Saving of annual expense of maintenance and renewal of cars, 4630 cars at $100 each	463,000.00	
Total saving by the movement of cars across State lines during the year ended June 30, 1914	$1,516,108.00	
This amount capitalized at six per cent. represents a value of		$25,268,466.67
Expedition of traffic:		
Saving of expense of transferring freight from car to car at State lines—		
516,872 cars at $3 each	$1,550,616.00	
Saving in interest on commercial capital made available to the public by expedition of traffic	119,456.91	
Total benefits resulting from the through movement of cars during the year ended June 30, 1914	$1,670,072.91	
This amount capitalized at six per cent. represents a value of		27,834,548.50
Total value		$53,103,015.17

THE KANSAS CITY, SHREVEPORT & GULF TERMINAL.

OTHER ITEMS OF COST.

WORKING CAPITAL:		
Being net funds necessary for the proper conduct of business as of date June 30, 1914:		
Current assets	$11,681.21	
Current liabilities	5,343.87	
Net working capital		$6,337.34
DEFICIT FROM OPERATION:		
Being total net return in deficit of a fair return upon the initial investment cost less interest paid on funds for the investment from the date the cost was incurred to date of valuation, less total net returns to that date:		
Minimum fair rate of return on basis of six per cent. per annum	$134,214.96	
Less amount of net return	121,006.11	
		13,208.85

EXHIBIT "U"—Continued.

Fair return on accrued deficit from operation:		
Being six per cent. per annum payable annually on the deficit for each year from the date of accrual to date of valuation		$489.15
Fair return on aids, gifts, grants and donations:		
Being six per cent. per annum payable annually on the value of aids, gifts, grants and donations, held or used for transportation purposes:		
Value of aids, gifts, grants and donations as shown on "Exhibit C"	$561.31	
Interest on same from date of investment until June 30, 1914		214.88
Fair return on working capital:		
Being six per cent. per annum payable annually on amount of working capital as shown by the books at the beginning of each year from the beginning of operation to June 30, 1914		6,270.01
OTHER ELEMENTS OF VALUE.		
VALUES DUE TO IMPROVED PHYSICAL CONDITION RESULTING FROM NATURAL CAUSES:		
Adaptation and solidification:		
Being estimated on basis of ten cents per cubic yard of embankment as cost of compacting by artificial means—43,127 cubic yards at 10 cents per cubic yard		4,312.70
ELEMENTS OF ECONOMIC VALUE.		
FAIR RETURN ON OTHER ELEMENTS OF VALUE:		
Fair return on adaptation and solidification:		
Being six per cent. per annum payable annually calculated by the straight-line theory of appreciation from date of accrual to date of valuation		3,274.02
FAIR RETURN ON INCREASES DUE TO INCREASED PRICES OF LAND, LABOR AND MATERIALS:		
Being the fair return on increased prices of land, labor and materials calculated by the straight-line theory of appreciation of six per cent. per annum payable annually from date of accrual to date of valuation:		
Cost of reproduction new as per "Exhibit J"	$246,911.21	
Less original cost to date as per "Exhibit I"	152,928.78	
	$93,982.43	
Fair return		71,347.36

EXHIBIT "U"—Continued.

THE ARKANSAS WESTERN RAILWAY.

OTHER ITEMS OF COST.

WORKING CAPITAL:		
Being net funds necessary for the proper conduct of business as of date June 30, 1914.		
Material and supplies on hand		$648.39
DEFICIT FROM OPERATION:		
Being total net return in deficit of fair return upon the initial investment cost less interest paid on funds for the investment, from the date the cost was incurred to date of valuation, less total net returns to that date.		
Minimum fair return on basis of six per cent. per annum	$281,631.86	
Less net return	244,224.69	37,407.17
Fair return on accrued deficit from operation:		
Being six per cent. per annum payable annually on the deficit for each year from the date of accrual to date of valuation		2,244.43
Fair return on aids, gifts, grants and donations:		
Being six per cent. per annum payable annually on the value of aids, gifts, grants and donations held or used for transportation purposes.		
Value of aids, gifts, grants and donations, as shown on Exhibit "D"	$6,143.74	
Interest on same from date of investment until June 30, 1914		5,029.39
Fair return on working capital:		
Being six per cent. per annum payable annually on amount of working capital as shown by the books at the beginning of each year from the beginning of operation to June 30, 1914		19,234.15
OTHER ELEMENTS OF VALUE.		
VALUES DUE TO IMPROVED PHYSICAL CONDITION RESULTING FROM NATURAL CAUSES:		
Adaptation and solidification:		
Being estimated on basis of 10 cents per cubic yard of embankment as cost of compacting by artificial means.		
162,170 cubic yards at 10 cents per cubic yard		16,217.00

EXHIBIT "U"—Continued.

ELEMENTS OF ECONOMIC VALUE.

INTERCHANGE OF CARS WITH CONNECTIONS:

Saving of expense of transfer from car to car freight delivered to connecting carriers—		
978 cars at $3 each	$2,934.00	
Saving of a six per cent. return on $8000 less investment required for equipment	480.00	
Saving in interest on commercial capital made available by expedition of traffic	120.57	
Saving of expense of switching in connection with freight received from connecting lines, 331 cars at $1.50 per car	496.50	
Saving of annual expense of maintenance and renewal of cars:		
8 cars at $100 each	800.00	
Total benefits resulting from interchange of cars with connections during the year ended June 30, 1914	$4,831.07	
This amount capitalized at six per cent. represents a value of		$80,517.83

FAIR RETURN ON OTHER ELEMENTS OF VALUE:

Fair return on adaptation and solidification:		
Being six per cent. per annum payable annually calculated by the straight-line theory of appreciation from date of accrual to date of valuation		8,751.04

FAIR RETURN ON INCREASES DUE TO INCREASED PRICES OF LAND, LABOR AND MATERIALS.

Being the fair return on increased prices of land, labor and materials calculated by the straight-line theory of appreciation of six per cent. per annum payable annually from date of accrual to date of valuation:		
Cost of reproduction new as per "Exhibit J"	$397,168.13	
Less original cost to date, as per "Exhibit I"	291,877.52	
	$105,290.61	
Fair return		56,816.96

EXHIBIT "U"—Continued.

VALUES DUE TO CO-ORDINATION OF PROPERTIES SITUATED IN DIFFERENT STATES.

Uninterrupted passage of freight traffic across State lines:		
Saving of expense of switching in connection with through movement of cars:		
1760 cars at $1.50 each	$2,640.00	
Saving of a fair return on $14,000 less investment required for equipment	840.00	
Saving of annual expense of maintenance and renewal of cars:		
14 cars at $100 each	1,400.00	
Total saving by the movement of cars across State line during the year ended June 30, 1914	$4,880.00	
This amount capitalized at six per cent. represents a value of		$81,333.33
Expedition of Traffic:		
Saving of expense of transferring freight from car to car at State line:		
1760 cars at $3 each	$5,280.00	
Saving in interest on commercial capital made available to the public by expedition of traffic	216.99	
Total benefits resulting from the through movement of cars during the year ended June 30, 1914	$5,496.99	
This amount capitalized at six per cent. represents a value of		91,616.50
Total value		$172,949.83

THE POTEAU VALLEY RAILROAD.

OTHER ITEMS OF COST.

WORKING CAPITAL:		
Being net funds necessary for the proper conduct of business as of June 30, 1914:		
Material and supplies		420.67
DEFICIT FROM OPERATION:		
Being the total net return in deficit of a fair return upon the initial investment cost less interest paid on funds for the investment, from the date the cost was incurred to date of valuation, less total net returns to that date:		
Minimum fair rate of return on basis of six per cent. per annum	$44,813.81	
Plus amount of deficit from operation	28,133.78	
		72,947.59

EXHIBIT "U"—Continued.

Fair return on accrued deficit from operation:		
Being six per cent. per annum payable annually on the deficit for each year from the date of accrual to date of valuation		$22,982.62
Fair return on working capital:		
Being six per cent. per annum payable annually on amount of working capital as shown by the books at the beginning of each year from beginning of operation to June 30, 1914		123.86

OTHER ELEMENTS OF VALUE.

VALUES DUE TO IMPROVED PHYSICAL CONDITION RESULTING FROM NATURAL CAUSES:		
Adaptation and solidification:		
Being estimated on basis of ten cents per cubic yard of embankment as cost of compacting by artificial means 78,643 cubic yards at ten cents per cubic yard		7,864.30

ELEMENTS OF ECONOMIC VALUE.

INTERCHANGE OF CARS WITH CONNECTIONS:		
Saving of expense of transfer from car to car. Freight delivered to connecting carrier:		
1640 cars at $3 each	$4,920.00	
Saving of a six per cent. return on $14,000 less investment required for equipment	840.00	
Saving in interest on commercial capital made available by expedition of traffic	80.88	
Saving of expense of switching in connection with freight received from connecting line:		
57 cars at $1.50 per car	85.50	
Saving of annual expense of maintenance and renewals of cars:		
14 cars at $100 per car	1,400.00	
Total benefits resulting from interchange of cars with connections during the year ended June 30, 1914	$7,326.38	
This amount capitalized at six per cent. represents a value of		122,106.33
FAIR RETURN ON OTHER ELEMENTS OF VALUE:		
Fair return on adaptation and solidification:		
Being six per cent. per annum payable annually calculated by the straight-line theory of appreciation from date of accrual to date of valuation		2,449.07

EXHIBIT "U"—Continued.

FAIR RETURN ON INCREASES DUE TO INCREASED PRICES OF LAND, LABOR AND MATERIALS:		
Being the fair return on increased prices of land, labor and materials calculated by the straight-line theory of appreciation of six per cent. per annum payable annually from date of accrual to date of valuation:		
Cost of reproduction new as per "Exhibit J"	$118,309.47	
Less original cost to date, as per "Exhibit I"	88,331.65	
	$29,977.82	
Fair return		$9,335.53

PORT ARTHUR CANAL AND DOCK.

OTHER ITEMS OF COST.

WORKING CAPITAL:		
Being net funds necessary for the proper conduct of business as of date June 30, 1914:		
Current assets	$47,019.09	
Current liabilities	22,495.38	
Net working capital		24,523.71
PROPERTY ABANDONED:		
Being the original cost of all transportation property abandoned in the course of creation and development of the property which had not been recovered at date of valuation		72,506.45
PORT ARTHUR SHIP CANAL:		
Being the value of the Port Arthur Ship Canal which was deeded to the Federal Government on August 1, 1906:		
Cost of canal	$926,273.18	
Cost of land	97,709.67	
Total cost of canal		1,023,982.85
DEFICIT FROM OPERATION:		
Being total net return in deficit of a fair return upon the initial investment cost less interest paid on funds for the investment from the date the cost was incurred to date of valuation, less total net returns to that date:		
Minimum fair rate of return on basis of six per cent. per annum	$1,743,689.56	
Less amount of net return	47,670.56	
		1,696,019.00

EXHIBIT "U"—Continued.

Fair return on accrued deficit from operation:		
Being six per cent. per annum payable annually on the deficit for each year from the date of accrual to date of valuation		$1,258,727.37
Fair return on aids, gifts, grants and donations:		
Being six per cent. per annum payable annually on the value of aids, gifts, grants and donations held or used for transportation purposes:		
Value of aids, gifts, grants and donations as shown on "Exhibit F"	$404.00	
Interest on same from date of investment until June 30, 1914		169.08
Fair return on working capital:		
Being six per cent. per annum payable annually on amount of working capital as shown by the books at the beginning of each year from the beginning of operation to June 30, 1914		13,813.70
Fair return on property abandoned:		
Being six per cent. per annum payable annually on original cost of property abandoned from date of abandonment to June 30, 1914		86,067.37
Fair return on Port Arthur Ship Canal:		
Being six per cent. per annum payable annually on cost of the canal from August 1, 1906, date deeded to the Federal Government until June 30, 1914		608,090.25

ELEMENTS OF ECONOMIC VALUE.

FAIR RETURN ON INCREASES DUE TO INCREASED PRICES OF LAND, LABOR AND MATERIALS:		
Being the fair return on increased prices of land, labor and materials, calculated by the straight-line theory of appreciation of six per cent. per annum payable annually from date of accrual to date of valuation:		
Cost of reproduction new, as per "Exhibit J"	$4,988,087.52	
Less original cost to date, as per "Exhibit I"	1,640,070.53	
	$3,348,016.99	
Fair return		2,158,919.27

EXHIBIT "U"—Continued.

THE K. C. S. ELEVATOR.

OTHER ITEMS OF COST.

WORKING CAPITAL:		
Being net funds necessary for the proper conduct of business as of date June 30, 1914:		
Current assets	$13,675.28	
Current liabilities	3,491.35	
Net working capital		$10,183.93
DEFICIT FROM OPERATION:		
Being total net return in deficit of a fair return upon the initial investment cost less interest paid on funds for the investment from the date the cost was incurred to date of valuation less total net returns to that date:		
Minimum fair rate of return on basis of six per cent. per annum	$56,250.47	
Plus amount of deficit from operation	36,981.31	
		93,231.78
Fair return on accrued deficit from operation:		
Being six per cent. per annum payable annually on the deficit for each year from the date of accrual to date of valuation		22,602.67
Fair return on working capital:		
Being six per cent. per annum payable annually on amount of working capital as shown by the books at the beginning of each year from the beginning of operation to June 30, 1914		2,282.71
FAIR RETURN ON INCREASES DUE TO INCREASED PRICES OF LAND, LABOR AND MATERIALS:		
Being the fair return on increased prices of land, labor and materials, calculated by the straight-line theory of appreciation of six per cent. per annum payable annually from date of accrual to date of valuation:		
Cost of reproduction new, as per "Exhibit J"	$187,321.70	
Less original cost to date, as per "Exhibit I"	136,878.79	
	$50,442.91	
Fair return		13,673.41

EXHIBIT "U"—Continued.

GLENN-POOL TANK LINE.

OTHER ITEMS OF COST.

WORKING CAPITAL:		
Being net funds necessary for the proper conduct of business as of date June 30, 1914:		
Current assets	$7,938.52	
Current liabilities	3,770.05	
Net working capital	$4,168.47	
The Kansas City Southern Railway Company's proportion 75 per cent.		$3,126.35
SURPLUS FROM OPERATION:		
Being total net return in excess of a fair return upon the initial investment cost less interest paid on funds for the investment from the date the cost was incurred to date of valuation, less total net return on basis of six per cent. per annum:		
Net income	$82,809.38	
Less fair return on basis of six per cent. per annum	58,704.51	
Surplus	$24,104.87	
The Kansas City Southern Railway proportion 75 per cent.		18,078.65
Fair return on working capital:		
Being six per cent. per annum payable annually on amount of working capital as shown by the books at the beginning of each year from the beginning of operation to June 30, 1914	$5,980.33	
The Kansas City Southern Railway proportion 75 per cent.		4,485.25

EXHIBIT "V."

OTHER VALUES AND ELEMENTS OF VALUE.

RECAPITULATION OF "OTHER VALUES AND ELEMENTS OF VALUE" AS SHOWN ON EXHIBIT "U" APPERTAINING TO THE KANSAS CITY SOUTHERN RAILWAY SYSTEM AND OF ITS PROPRIETARY AND SUBSIDIARY COMPANIES.

AS OF DATE, JUNE 30, 1914.

	The Kansas City Southern Ry. System	The Kansas City, Shreveport & Gulf Terminal	The Arkansas Western Ry.	The Potosu Valley Railroad	Port Arthur Canal and Dock	The K. C. S. Elevator	Glenn-Pool Tank Line (The K. C. S. Ry. ownership 75 per cent.)
OTHER ITEMS OF COST.							
Working capital	$1,859,123.73	$6,337.34	$648.39	$420.67	$24,523.71	$10,183.93	$3,126.35
Reorganization expenses	3,281,224.61						
Investment in terminal companies	110,000.00						
Property abandoned	2,270,240.03				72,506.45		
Port Arthur Ship Canal					1,023,982.85		
Fairmount Park	199,094.78						
Mena Land and Improvement Company	129,202.71						
Deficit from operation:							
Total net return in deficit of a fair return	152,209.52	13,208.85	37,407.17	72,947.59	1,696,019.00	93,231.78	0r.18,078.65
Fair return on accrued deficit from operation	6,590,617.12	489.15	2,244.43	22,982.62	1,258,727.37	22,602.67	
Fair return on aids, gifts, grants and donations	1,908,271.31	214.88	5,029.39		169.08		
Fair return on working capital	1,986,521.13	6,270.01	19,234.15	123.86	13,813.70	2,282.71	4,485.25
Fair return on reorganization expenses	3,901,567.89						
Fair return on property abandoned	921,023.58				86,067.37		
Fair return on investment in terminal companies	37,204.82						
Fair return on Port Arthur Ship Canal					608,090.25		
Fair return on Fairmount Park	203,286.93						
Fair return on Mena Land and Improvement property	54,214.13						
OTHER ELEMENTS OF VALUE.							
Values due to improved physical condition resulting from natural causes: Adaptation and solidification	2,269,240.00	4,312.70	16,217.00	7,864.30			
Values due to co-ordination and co-operation of different properties; Undivided interest in terminal companies	3,359,021.48						
ELEMENTS OF ECONOMIC VALUE.							
Interchange of cars with connections	7,855,035.33		80,517.83	122,106.33			
Use of property jointly owned with other carriers	59,720.33						
Joint use of facilities of other carriers	646,213.73						
Fair return on other elements of value: Fair return on adaptation and solidification	1,722,707.15	3,274.02	8,751.04	2,449.07			
Fair return on undivided interest in terminal companies	742,354.17						
Fair return on increases due to increased prices of land, labor and materials	10,051,738.16	71,347.36	56,816.96	9,335.53	2,158,919.27	13,673.41	
Values due to co-ordination of properties situated in different States	53,103,015.17		172,949.83				

MSH 21324

END OF
TITLE